



Ethiopia's Private Sector Action Plan for Agricultural Development

June 2012

Purpose of the Private Sector Action Plan

This Private Sector Action Plan offers an overview of Ethiopia's agricultural investment landscape, highlighting key opportunities for private sector investment. Specifically, this Plan:

- Offers insight into Ethiopia's macroeconomic environment, agro-climatic conditions, and the country's agricultural production patterns
- Highlights specific high potential investment opportunities within three value chains to be prioritized for private sector investment in the short-term. An additional seven value chains are identified for medium to long-term private sector investment
- Identifies several potential barriers to investing in Ethiopia and outlines the strategies and activities the Government of Ethiopia, donors, and private enterprises are putting in place to overcome them

Intended Audience

This Action Plan is intended for investors interested in the agricultural sector in Ethiopia, especially regional and international investors

Private Sector Action Plan

Methodology and Disclaimer



Methodology

- Information contained in this Private Sector Action Plan was captured and qualified over a four-month period by Monitor Group
- The data and information used to inform the Plan were derived from both primary and secondary research.
- As part of the research more than 50 contacts, including agribusinesses, investors, donors, NGOs, and public sector ministries across Ethiopia, were interviewed in order to gather a wide range of perspectives on agricultural investment opportunities and key enabling requirements needed
- These interviews helped inform the assessments shared in this Plan

Disclaimer

- This Plan was written by Monitor Group, an independent, global management consultancy firm with funding provided by USAID as technical assistance to the Ethiopian Agricultural Transformation Agency and the Ministry of Agriculture.. Information and prospectuses shared in this Plan should not be regarded as an offer to buy, sell, or otherwise deal with any investment referred to herein

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Private Sector Action Plan

Abbreviations and Acronyms

Acronyms and abbreviations used in this Plan are defined below; unless otherwise noted, all monetary amounts are in USD

AACCSA	Addis Ababa Chamber of Commerce and Sector Associations
ACDI/VOCA	Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance
ADB	African Development Bank
AGP	Agricultural Growth Program
AGP-AMDe	Agricultural Growth Program - Agricultural Marketing Development Project
AGP-VCE	Agricultural Growth Program - Value Chain Expansion
ASSP	Agriculture Sector Support Project
ATA	Agricultural Transformation Agency
CAGR	Compound Annual Growth Rate
CIDA	Canadian International Development Agency
COGS	Cost of goods sold
COMESA	Common Market for Eastern and Southern Africa
CSA Ethiopia	Central Statistical Agency of Ethiopia
DBE	Development Bank of Ethiopia
DCED	Donor Committee for Enterprise Development
DFID	Department for International Development
DFQF	Duty-free and quota-free
ECCSA	Ethiopian Chamber of Commerce and Sector Associations
ECX	Ethiopian Commodity Exchange
EIA	Ethiopian Investment Agency
EMEC	Ethiopian Metal and Engineering Corporation
EPOSPEA	Ethiopian Pulses, Oilseeds, and Spices Producers and Exporters Association
EPPCF	Ethiopian Public Private Consultative Forum
FAO	Food and Agriculture Organization

GDP	Gross domestic product
GNI	Gross national income
GoE	Government of Ethiopia
GTP	Growth and Transformation Plan
HA	Hectare
HL	Hectoliters
ICC	International Criminal Court
IFC	International Finance Corporation
IRR	Internal rate of return
KG	Kilogram
MoA	Ministry of Agriculture
MoFED	Ministry of Finance and Economic Development
MoTI	Ministry of Trade & Industry
MT	Metric ton
NBE	National Bank of Ethiopia
NGO	Non-governmental organization
NPV	Net present value
PMU	Project Management Unit
PPESA	Private and Public Enterprises Supervising Agency
PSD Hub	Private Sector Development Hub
SHF	Smallholder farmer
SIDA	Swedish International Development Cooperation Agency
SNV	Netherlands Development Organization
TA	Technical assistance
UN	United Nations
USAID	United States Agency for International Development
USDA	U.S. Department of Agriculture
WEF	World Economic Forum
WFP	World Food Program

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- Government Initiatives to Accelerate Investments in Agriculture
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Ethiopia is attractive given its strong economic growth, investment incentives, access to large markets, and a series of Government initiatives in place to improve the enabling environment

1

Strong Economic Growth and Political Stability

2

Attractive Investment Incentives

3

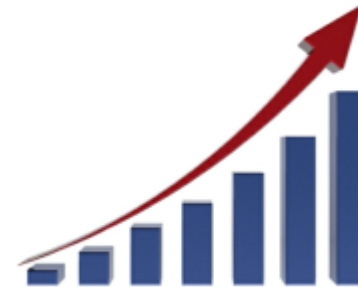
Preferential Access to Large Domestic, Regional and International Markets

4

Favorable Agro-Climatic Conditions

5

Multiple Government Enabling Environment Investments and Initiatives



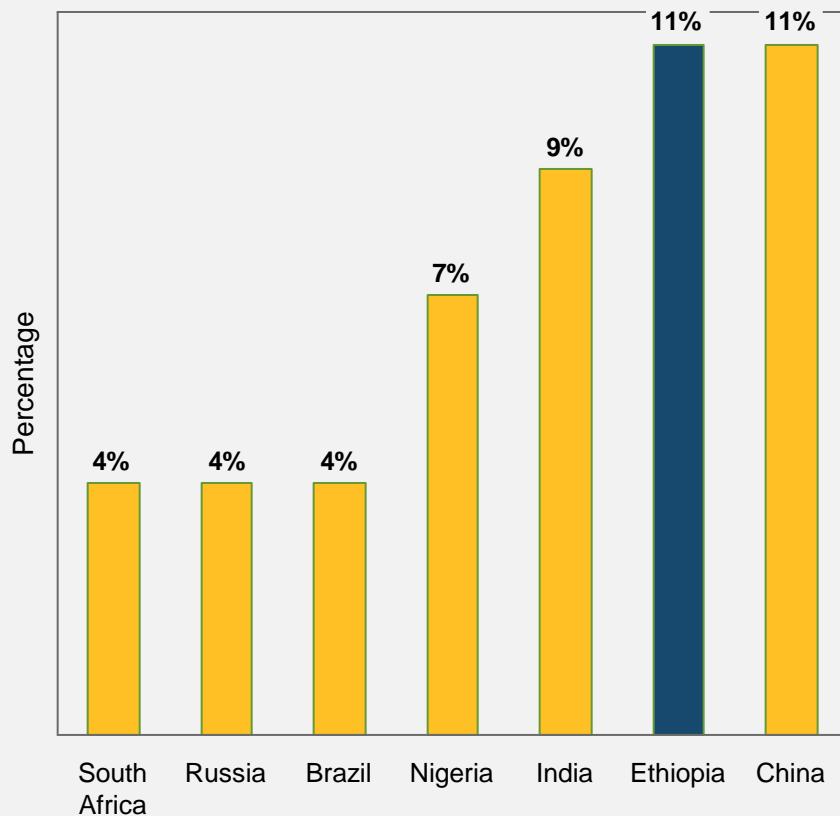
Executive Summary

Economic Overview



Ethiopia is the third fastest-growing economy in the world with GDP growth averaging 11% over the past 7 years and which is expected to continue growing at this rate

GDP Growth Rates, 2005-2010



Attractive Performance and Governance

- **11% annual GDP growth** rate since 2005
- **Ranked as 3rd fastest growing economy** in the world for the next four years by “The Economist,” behind China and India
- **Political stability** which fosters a peaceful and secure working environment
- Simple taxation structure and **tax breaks** for investors
- Robust **policy framework** in the “Growth and Transformation Plan” which also focuses on **private sector investment** promoting growth
- **Zero tolerance to corruption and fraud**

Executive Summary

Agriculture in Ethiopia



Ethiopia's varied agro-ecological climates and abundant land availability make it an attractive destination for investors looking to invest in agriculture

Agro-Climatic Conditions

- Agriculture is Ethiopia's primary source of economic activity and employment, and **a wide variety of crops thrive** in the country's diverse micro-climates
- Ethiopia's favorable agro-climatic conditions, widely available arable land, and conducive temperatures and rainfall make it **attractive for investment**

Consumption and Production Patterns

- Cereals form the basis of most Ethiopian diets, and food accounts for the majority of **household per capita spending**
- **Grain** and **livestock** are some of the most important crops produced in Ethiopia, and **coffee, sesame, and bovine livestock** are key exports

Recent Investments

- The past 15 years have seen an inflow of FDI funding, with **27% going to the agricultural sector**;
- **Horticulture, livestock & dairy, and fruits & vegetables** have the highest levels of investment, receiving 25%, 24%, 13% respectively

Economic Contributions

- Agriculture accounts for **86% of the workforce** in Ethiopia, with 12M **smallholder farmers accounting for 95%** of crop production
- Improvements in the agricultural sector have helped fuel Ethiopia's strong **11% GDP growth from 2005-2010**

Government Initiatives to Accelerate Investments in Agriculture



The Government is leading three prominent initiatives to encourage and facilitate private sector investment in the agricultural sector

Growth and Transformation Plan (GTP)

- An ambitious set of **national investments**, primarily aimed at agriculture and industry, that will infuse \$73B over five years into **upgrading Ethiopia's hard and soft infrastructure**

Agricultural Growth Program (AGP)

- A core element of the GTP, this program aims to **increase agricultural productivity** and market access for key crop and livestock products
- Focuses on strengthening **farmer organizations**, engaging the **private sector**, and improving **rural infrastructure**

Agricultural Transformation Agency (ATA)

- A **high performance change agent** established in 2010, tasked with solving key problems faced by the Ethiopian agricultural sector
- To help catalyze and facilitate private sector agricultural investment opportunities, a PMU **housed within the ATA** has been proposed to serve as a **single point of contact** for agriculture investments

Medium and Short-Term Value Chains for Investment



Of several attractive value chains, three have been prioritized as short-term investment opportunities for investors interested in Ethiopian agriculture: chickpea, sesame, and barley

**Medium to
Long-Term
Opportunities**

Wheat



Maize



Livestock



Dairy



Honey



Sugarcane



Fruits & Veg

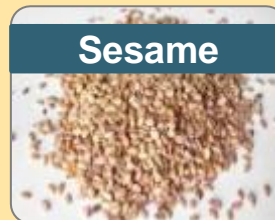


**Short-Term
Opportunities**

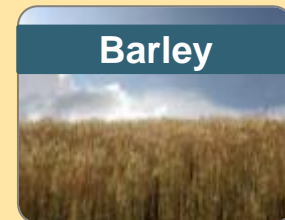
Chickpea



Sesame



Barley

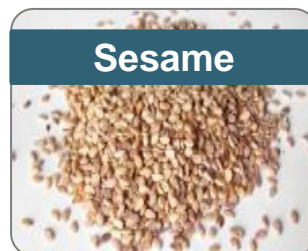


Through conversations with stakeholders and investors, a short-list of business opportunities across the short-term prioritized value chains was developed

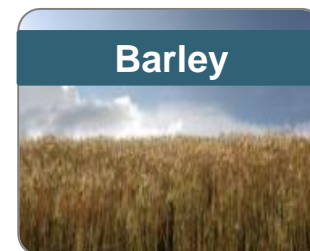
Value Chain



Chickpea



Sesame



Barley

Investment Opportunity

Flour Processing Plant:

- High domestic demand for chickpea and further growth for processed foods
- Limited competition offering early mover advantages
- \$7M investment expected to yield 40% IRR, \$4.3M NPV

Hulling Facility:

- Limited domestic processing capacity creates an opportunity to establish a high-quality value-addition hulling facility
- \$6.5M investment expected to yield 43% IRR, \$2.6M NPV

Malting Plant:

- 15-20% growth in market demand for beer and malt
- Under-developed domestic malt industry leads brewers to import ~60% of malt requirements
- \$25M investment expected to yield 24% IRR, \$3.3M NPV

Proposed Location

- 1 hectare in Oromia for processing facility
- Location offers proximity to large market

- 1 hectare in Oromia for processing facility
- 300 hectares in Humera for nucleus farm
- Location allows for sourcing flexibility

- 10 hectares in Oromia for malting facility
- Central location allows for sourcing from Oromia and Amhara and supplying breweries with malt

Investors and stakeholders working in Ethiopia's agricultural sector face eleven key risks, for which mitigation measures are underway by Government, donor, and private sector actors

Supply Chain Risks

- 1) Difficulty Financing and Distributing Inputs
- 2) Low Capacity / Productivity of Smallholder Farmers and Cooperatives
- 3) Infrastructure
- 4) Variable Commodity Prices
- 5) Environmental Factors

Political / Regulatory Risks

- 6) Restrictive and Uncertain Policy / Regulatory Environment
- 7) Lack of Private Sector Input into Policy Making
- 8) Delays from Government Bureaucracy

Market Risks

- 9) Access to / Competitiveness in Export Markets

Financial Risks

- 10) Difficulty Accessing Capital / Credit
- 11) High Inflation

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Why Invest in Ethiopia

Attraction for Investors

Ethiopia is widely regarded as an attractive investment destination due its continued strong economic performance, stable political environment, investment incentives and market access

1 Strong Economic Growth and Political Stability

- GDP growth has **averaged 11% over last 7 years**
- UN and ICC have described Ethiopia as “exceptional given almost complete **absence of routine corruption**”¹

2 Attractive Investment Incentives

- Investors are able to **lease land at favorable rates**, e.g. \$6-7 per ha per year in Oromia for 80 year leases
- **Business friendly tax environment** offering tax holidays up to 5 years and other incentives, including 100% customs import duty exemption on capital goods

3 Favorable Agro-Climatic Conditions

- Ethiopia is home to 11 major agro-ecological zones and 49 agro-ecological sub-zones, **suitable for growing more than 150 types of crops**
- Over 80M ha of arable land of which **only 21% is currently under cultivation**

4 Multiple Government Enabling Environment Investments and Initiatives

- **Government spending \$73B** on upgrading infrastructure through Growth and Transformation Plan (GTP)
- Agricultural Transformation Agency (ATA) is committed to **identifying bottlenecks and resolving them**

5 Preferential Access to Large Domestic, Regional and International Markets

- Membership in Common Market for Eastern and Southern Africa (**COMESA**) **enhances access to 23 member countries**, including regional neighbors Kenya, Uganda, South Sudan, Rwanda, and Burundi
- Ethiopia is geographically well-positioned to serve several export markets
- Large domestic market; Ethiopia’s **population of 85 M** is the second largest in Sub-Saharan Africa

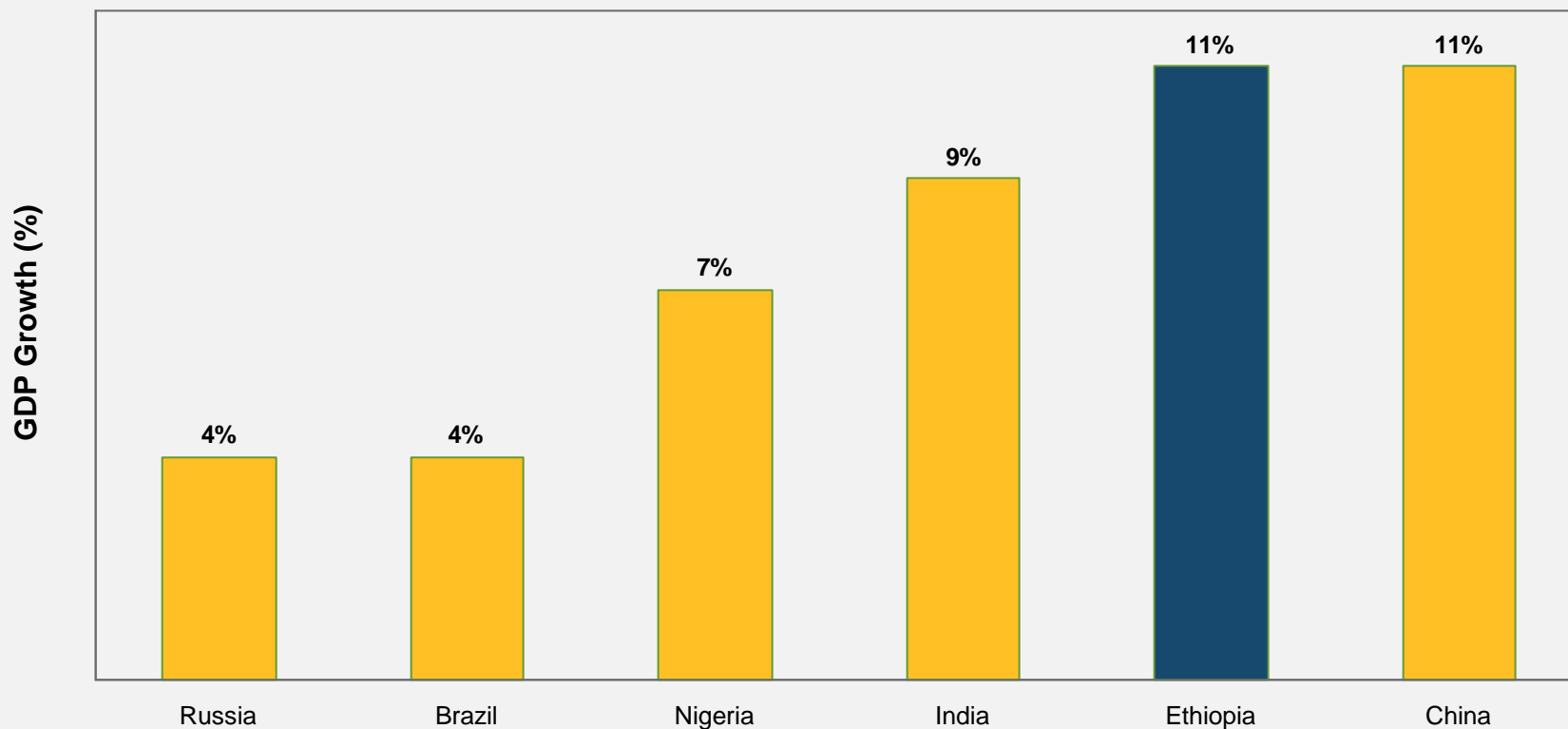
¹ “Africa’s Impressive Growth,” The Economist
Source: Monitor Analysis

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Ethiopia has experienced strong economic growth over the past five years with an 11% average annual GDP growth rate, second only to China

GDP Growth in Ethiopia and Benchmark Economies, 2005 – 2010



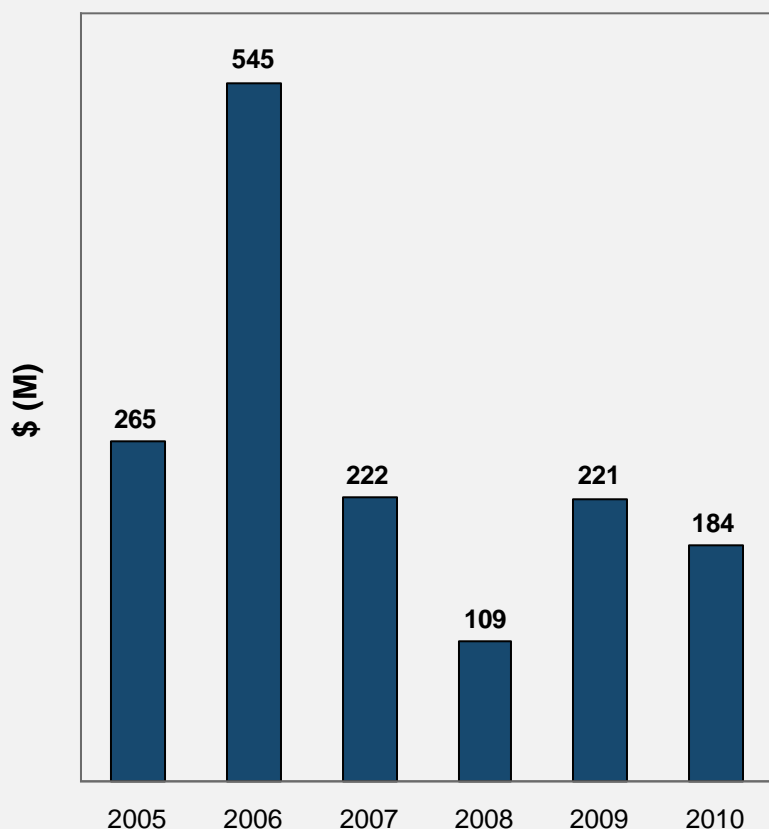
Note: Chart represents average annual GDP growth at constant 2000 prices
Source: World Bank, Data Bank

Economic Overview of Ethiopia

Inflation, Currency Stability and FDI

Macroeconomic challenges such as high inflation and currency devaluation have stabilized considerably over the last year and are expected to remain so going forward

Ethiopia FDI Inflows, 2005 – 2010

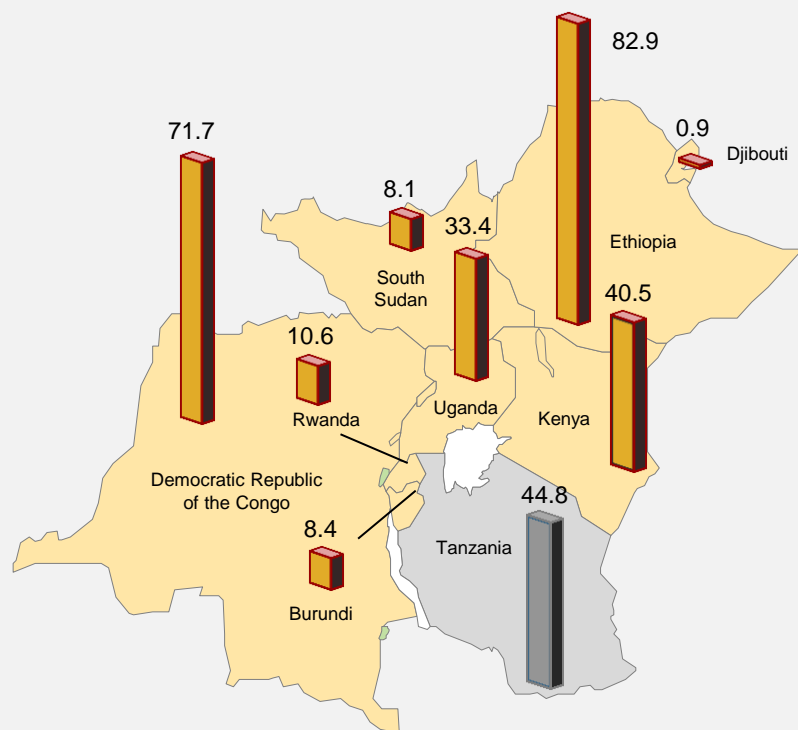


Inflation, Currency Stability and FDI

- Inflation peaked at 38% in 2010, driven primarily by Government spending, but has reduced to 18 to 20% and is **expected to stabilize at 12% by the end of 2012¹**
 - In 2011, GoE introduced policy measures designed to tighten monetary policies and public spending and to curb inflation
- Currency is expected to fluctuate **mildly between 17.6 ETB/USD to 18.2 ETB/USD** as inflationary pressures recede and balance of payments remains stable
 - Currency underwent a one-time devaluation by 20% in September 2010 to bolster balance of payments
- FDI in Ethiopia hovers around ~\$200Mn / year
 - A 2006 spike was the result of increased oil exploration in the country's Ogaden region, which has little agricultural activity

Investors in Ethiopia also benefit from access to large domestic, regional, and international markets

Select Regional Countries' Population Sizes



Population
(Millions)



COMESA
Members



Other Trade
Countries

Access to Adjacent Markets

- Ethiopia's **population of 82.9M** is the second largest in Sub-Saharan Africa
 - 44% of the population is under age 15 and 73% is under 30
- Ethiopia is **geographically well-positioned** to serve several export markets
 - Its location in the 'Horn of Africa' places it at the **crossroads between Africa, the Middle East and Asia**
- Membership in Common Market for Eastern and Southern Africa (**COMESA**) enhances **access to 23 member countries** and their population of more than 420 million
- Ethiopia also enjoys **Duty Free and Quota Free (DFQF) privilege** extended by international markets of USA, European Union, China and India

Ethiopia compares poorly to East African countries on measures relating to starting a business but is better on others; Government initiatives are trying to improve the country's performance

	Ethiopia	East Africa					Large African Economies		
		Regional Average	Kenya	Rwanda	Tanzania	Uganda	South Africa	Nigeria	Egypt
Overall Rank	111	101	109	45	127	123	35	133	110
Starting a Business	99	102	132	8	123	143	44	116	21
Dealing with Construction Permits	56	102	37	84	176	109	31	84	154
Getting Electricity	93	93	115	50	78	129	124	176	101
Registering Property	113	120	133	61	158	127	76	180	93
Getting Credit	150	41	8	8	98	48	1	78	78
Protecting Investors	122	89	97	29	97	133	10	65	79
Paying Taxes	40	102	166	19	129	93	44	138	145
Trading Across Borders	157	137	141	155	92	158	144	149	64
Enforcing Contracts	57	80	127	39	36	116	81	97	147
Resolving Insolvency	89	111	92	165	122	63	77	99	137

Note: Countries are ranked based best to worst from 1-183

Source: "Doing Business 2012," The World Bank and IFC

Ethiopia compares poorly to East African countries on measures relating to starting a business but is better on others; Government initiatives are trying to improve the country's performance

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Getting Electricity	93				78	129	124	176	101
Registering Property	113				158	127	76	180	93
Getting Credit	150				98	48	1	78	78
Protecting Investors	122	89	97	29	97	133	10	65	79
Paying Taxes	40				129	93	44	138	145
Trading Across Borders	157				92	158	144	149	64
Enforcing Contracts	57	80	127	39	36	116	81	97	147
Resolving Insolvency	89	111	92	165	122	63	77	99	137

Rwanda performs far above regional standards and can serve as a model for Ethiopia in particular areas

Challenges obtaining credit and registering property act as deterrents to parties considering bringing their business to Ethiopia

Improved environment for paying taxes and enforcing contracts make Ethiopia more competitive with other countries in the region

Ethiopia's large and urbanizing domestic market offers a large pool of trainable labor and an evolving consumer market

Market Size

- **Population of 85 million people**, 2nd largest in Africa, growing at 2% per annum
 - 44% of population is under the age of 15 years and 73% is under the age of 30 years
- Urban population has crossed 10 million people and country **continues to urbanize at 4% per annum**

Labor Force

- Abundant labor in Ethiopia is generally **well trained with over 30,000 university graduates** per year with degrees in business, management, economics, accounting, law and engineering
- English is not yet widely spoken but **prevalence is increasing** through education
- **Discipline and productivity is good in urban areas** given high level of training though is quite poor in rural areas (especially subsistence farmers)

Consumption Patterns

- Estimated that around 50% of Ethiopia's urban employed earn the **equivalent of at least \$1,000 per annum**
- Urban Ethiopia currently has a **collective buying power of \$6 billion per annum**, which will **expand by at least \$1 billion per annum** over the next few years
- Increasing spending on **processed foods especially cereals and edible oils**
 - Other products such as soft drinks, household consumables such as soaps, toiletries, detergents, mobile ownership & services also projected to grow very fast

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Agriculture in Ethiopia

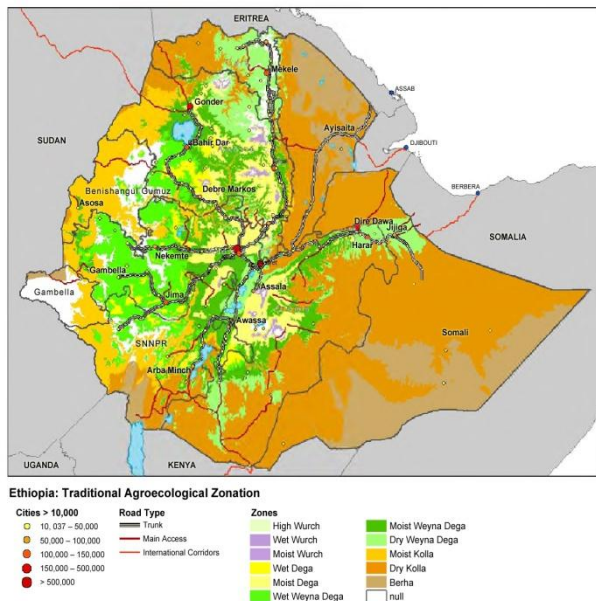
Overview and Climate



Agriculture is the primary source of economic activity and employment in Ethiopia, with the country's favorable agro-climatic conditions making it an attractive investment destination

Ethiopia's Attractiveness for Agriculture Investments

- **Agreeable temperatures and rainfall**
 - Both enable the production of high value crops, such as coffee, sesame, and other oilseeds
 - Two main harvest seasons, Meher and Belg; 95% of harvesting completed from Oct – Dec during Meher season
- **Availability of arable land**
 - Ethiopia has more than 74 million hectares of arable land available with only 15.5 million hectares under cultivation
 - With just 21% of arable land under cultivation, there is room for significant agricultural growth
- **Diverse agro-ecological zones**
 - Eleven agro-ecological zones offer distinct climates, natural vegetation, and soil profiles
 - Wide variety of crops thrive in each of these distinct micro-climates



Ethiopian Agro-Ecological Zones

Agro-Ecological Zone	Description	Altitude (meters)	Mean annual rain (mm)	Suitable Crops
Wurch	Cold highlands	>3000	above 2200	Barley
Dega	Cool, humid, highlands	2500-3000	1200 - 2200	Barley, wheat, pulses
Weyna Dega	Temperate, cool sub-humid, highlands	1500-2500	800-1200	Maize, Sorghum, Tef, Enset, Wheat, Barley
Kolla	Warm, semi-arid lowlands	<1500	200-800	Mango, Taro, Sugar, Maize, Coffee, Orange, Groundnuts
Berha	Hot, hyper-arid	<500	below 200	Only irrigated crops

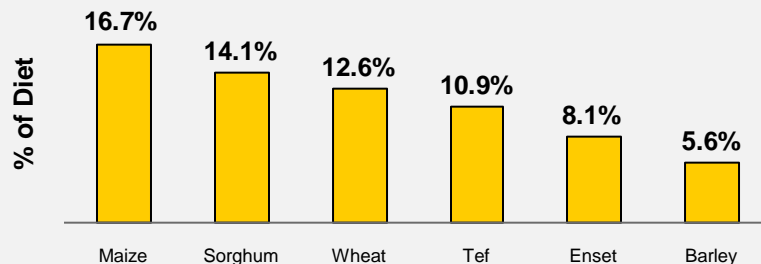
Source: Hurni, 1998. Agro-ecological zones were defined based on traditional zone designations used by local residents linked with specific rainfall and elevation parameters. The result is boundaries that can be mapped to agro-ecological zones. IFPRI "Ethiopian Agriculture: A Dynamic Geographic Perspective"

Grain and livestock are some of the most important crops produced in Ethiopia, and coffee, sesame, and bovine livestock are key exports

Consumption Patterns

- Food accounts for most household spending
- Rural diet is heavily **influenced by locally available food**, and thus, the geography of food production
- **Cereals are responsible for 72% of caloric intake** in Ethiopia, and form the basis of most Ethiopian diets
 - Urban dwellers are more likely to consume **processed cereals** (12% of total per capita spending), vs. rural dwellers (2%), who consumer raw and **basic cereals** such as tef, wheat, and maize

Principal Staple Crops of the Ethiopian Diet

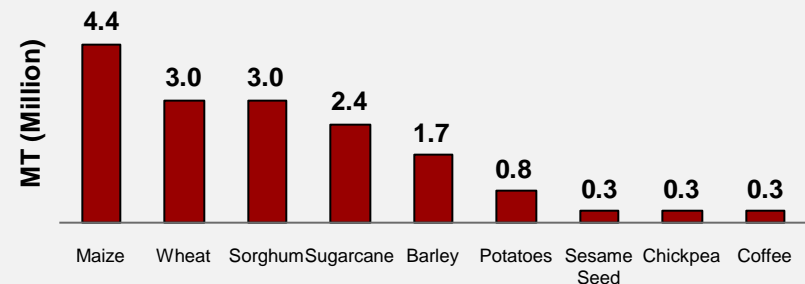


Staple Foods

Major Crop and Livestock Production

- Ethiopia **produced 31M MT** of agriculture products in 2010, including 71% from grain production
 - Ethiopia also has Africa's **3rd largest livestock population** with 99M head of livestock
- Ethiopia's top export commodities are **coffee, sesame, and bovine livestock**; in 2010, exports yielded nearly \$715M
- Agricultural imports account for less than 2% of total Ethiopian imports, but of this, **wheat, palm oil, sugar cane, sorghum, and rice** are all significant imports

Crop Production, 2010



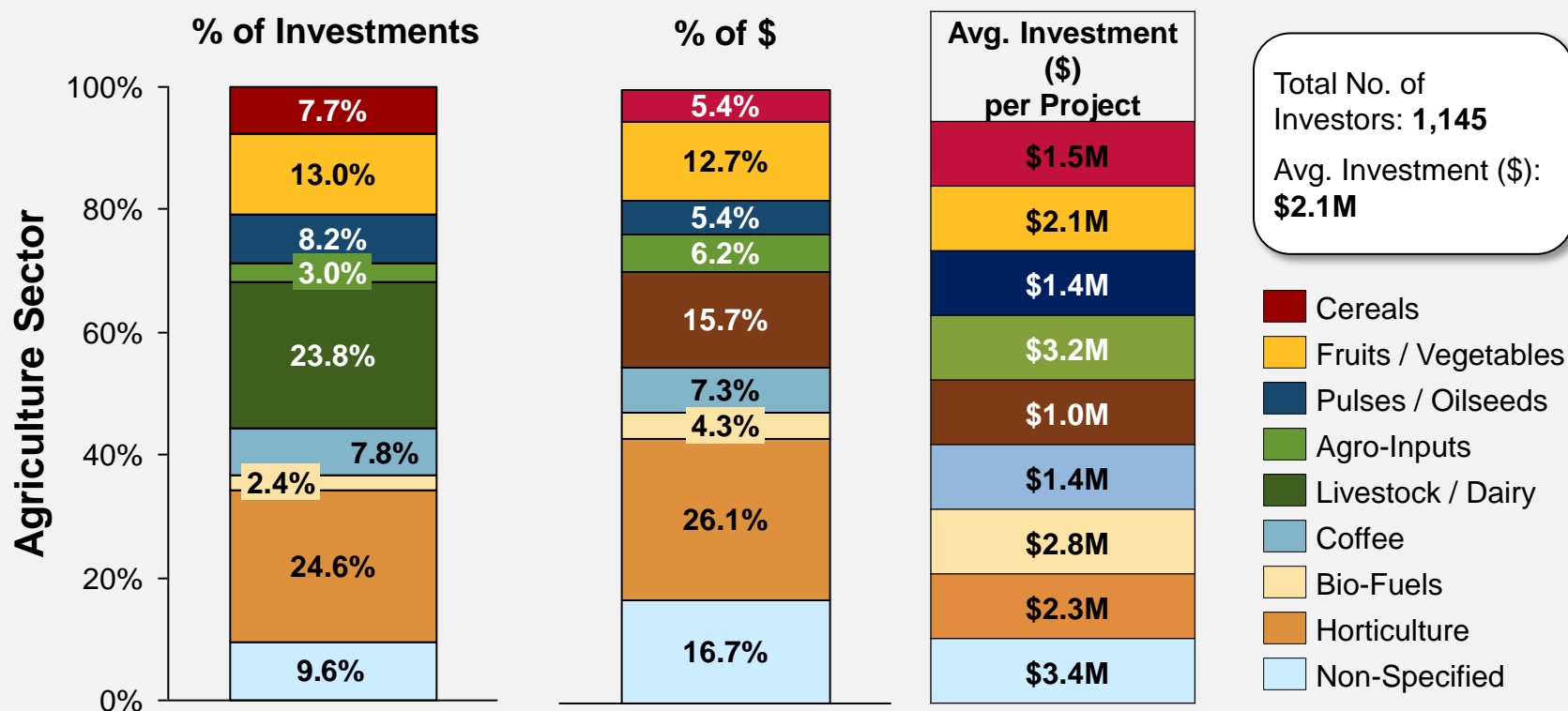
Top Produced Crops

Agriculture in Ethiopia

Investment Activity

The past 15 years have seen an inflow of FDI funding, with 27% going to the agricultural sector; horticulture, livestock & dairy, and fruits & vegetables have had the highest levels of investment

Distribution of Funding (by % of Investments and % of \$) – mid '90s to Jan '08



Note: EIA dataset spans mid-1990s until January 2008; Investments that spanned multiple value chains are assumed to be evenly split; 1) Livestock includes production of meat products 2) Other includes sugar, honey, spices, tobacco, tea, silk, and cotton, among others

Source: Ethiopian Investor Agency, Foreign Investors Database <http://solba.weebly.com/investment.html>; Monitor Analysis

Agriculture accounts for the majority of the workforce in Ethiopia, with smallholder farmers accounting for the majority of crop production; strong growth is expected to continue

Key Agriculture Labor Statistics

86.2%

Amount of total Ethiopian workforce employed by the agricultural sector

12.6M

Number of smallholder farmers in Ethiopia

1.2 ha

Average land owned by SHFs

95%

Agriculture production from SHFs

9%

Annual Agriculture GDP growth from 2006-2010

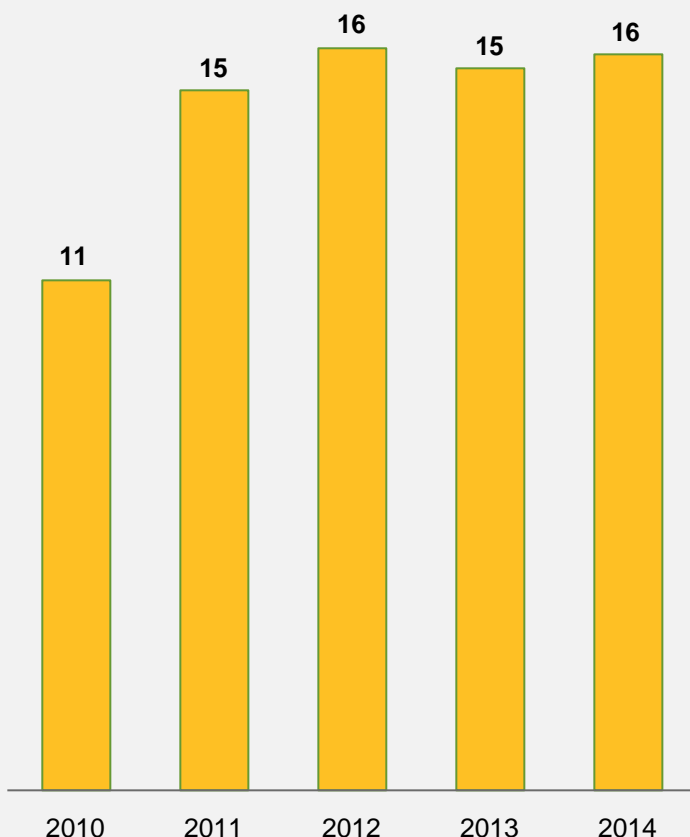
- Agriculture accounts for **86.2% of all employment** in Ethiopia, comprising **12.6M smallholder farmers** and employees on several hundred commercial farms
- Smallholder farmers typically operate farms averaging just 1.2 hectares each, and account for 95% of agriculture production in Ethiopia
 - SHFs often belong to cooperatives—**organized groups of smallholder farmers that pool their resources** for the shared benefit of the community
 - By leveraging economies of scale, supply cooperatives can **lower the cost of inputs, machinery, and field services**; marketing cooperatives can **improve market linkages** and **negotiate better prices** for their members
- GDP growth in the agricultural sector has been averaging **9% per annum** between 2006 and 2010
 - Growth was driven by expansion in cultivated area at a rate of 4.3% and improvements in input usage, productivity, and efficiency
- **Continued GDP growth** is attributable in part to **Government led efforts to improve the agricultural sector** in Ethiopia and its recognition of agriculture as a staple of economic success

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The Growth and Transformation Plan represents an ambitious set of national investments that will significantly upgrade both hard and soft infrastructure

**Growth and Transformation Plan –
Projected Spending (\$ B)**



Key Highlights of Growth and Transformation Plan

- Building **71,000 km of new roads**, including all-weather roads to virtually all kebele administrations and an expressway linking Addis Ababa to Adama (a key route to facilitate export and import trade)
- Constructing **2,395 km of new railways** linking Addis Ababa with Djibouti, linking selected domestic cities, and within Addis Ababa itself
- Laying **132,000 km of new electricity** lines and expanding electricity coverage to 75% of the country
- Expanding the **water supply infrastructure to cover 99% of the population** and the drilling of some 3,000 water wells per year
- Increasing **irrigation coverage from 3% to 16%** of total farm land
- Increasing (net) primary enrollment to 100%; **raising the number of students** at government universities to nearly half a million students (from 185,000 at present)

Government Initiatives

Agricultural Growth Program



The Agricultural Growth Program (AGP), a core program of the GTP, aims to increase agricultural productivity and market access for key crop and livestock products

Core Components of the AGP

1

Agricultural Production and Commercialization (\$118M)

- Strengthen **capacity of farmer organizations** by scaling up best practices and improving production and processing technologies
- Strengthen marketing and processing of selected commodities by **engaging private sector stakeholders**

2

Small-Scale Rural Infrastructure Development and Management (\$142M)

- Support the **construction, improvement, and management of small-scale rural infrastructure** (e.g., water, roads and market access) to improve productivity and to further develop and increase the efficiency of key value chains through improved access to markets

3

Management and Monitoring & Evaluation (\$19M)

- Ensure effective **coordination and management of the AGP** at all levels of implementation

Target Value Chains

• Livestock

- Increase production and productivity by improving milk, poultry and honey production, with additional focus on aquaculture
- Focus on processing activities and marketing

• Crops

- Increase production of cereals (tef, maize, wheat, barley and sorghum), potatoes, tomatoes and onion
- Initiatives include promoting new technologies with an integrated approach to crop nutrition, pest/disease control, and resource management

• Seed and breed multiplications

- Initiatives include provision of extension services, training, and limited improved genetic stock
- Facilitate linkages with post-harvest processing and input supplies

• Niche products

- Provide technical advice, training, and initial planting material for products such as organic produce and medicinal plants

The Agricultural Transformation Agency (ATA) represents a high performance change agent, tasked with solving the key problems faced by the Ethiopian agricultural sector

Origins of ATA

- Established Q4 2010 on the recommendation of a set of Gates Foundation diagnostics submitted directly to the Prime Minister
- Created as an independent organization modeled after Taiwanese and Korean “acceleration units”
- ATA’s overall objective is to support achievement of the Growth and Transformation Plan’s agri-related targets

ATA’s Approach

- ATA’s key activities include:
 - Leading problem solving efforts to identify solutions to systemic bottlenecks
 - Supporting implementation by providing project management, capability building etc.
 - Enhancing linkages and coordination among agri-stakeholders

Enabling Factors for ATA’s Success

- Reporting line directly to the Prime Minister
- Private-sector orientation, but with strong linkages to public entities, e.g., Ministry of Agriculture
- Hybrid staffing model - long-term goal is for ATA to be fully staffed by Ethiopian civil service, but for initial years, a hybrid model of international staff, local analysts and seconded public sector “fellows” is employed

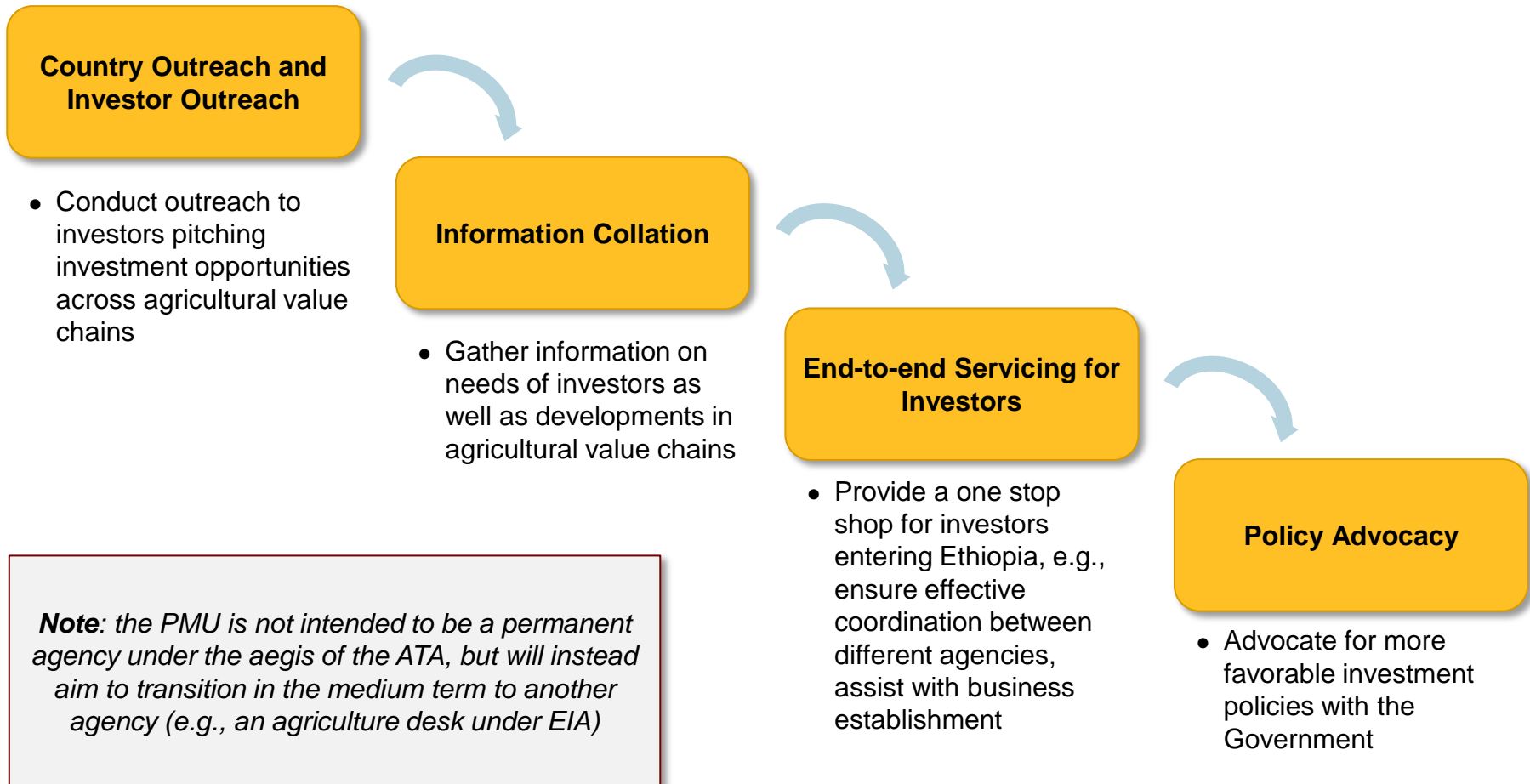
Example ATA Initiatives

- Attracting and facilitating the entry of agri-investors
 - Note: Project Management Unit to support agri-investors currently being developed, to be housed within ATA
- Developing systemic interventions for key bottlenecks such as financing, input supply, and extension services, as well as multi-stakeholder roadmaps for specific crops, such as oilseeds

Government Initiatives

Project Management Unit

To help catalyze and facilitate private sector agricultural investment opportunities, a PMU housed within the ATA has been proposed to serve as a quasi-investment agency



Contents

- Executive Summary
- Why Invest in Ethiopia
- Economic Overview of Ethiopia
- Agriculture in Ethiopia
- Government Initiatives to Accelerate Investments in Agriculture
- **Investment Opportunities in Ethiopian Agriculture**
- Key Risks and Mitigation Strategies
- Further Information and Contact Details
- Appendix

Agriculture Investment Opportunities

Value Chains for Investment

There are several value chains in Ethiopia that would be attractive for investors

Medium to Long-Term Opportunities

Wheat



Maize



Livestock



Dairy



Honey



Sugarcane



Fruits & Veg



Short-Term Opportunities

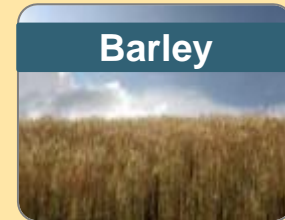
Sesame



Chickpea



Barley



Agriculture Investment Opportunities

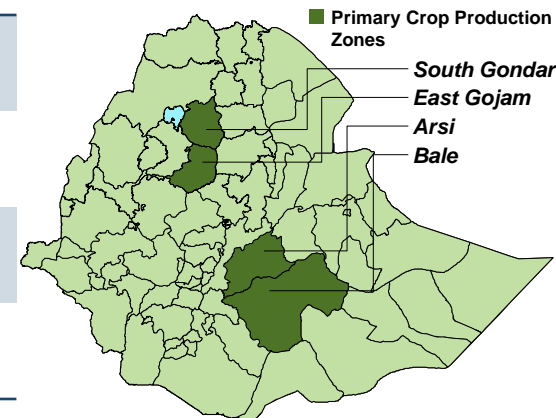
Medium-Term Opportunities in Wheat

Domestic Market Oriented Commodity



Wheat

Production (MT in 2010/11)	2,855,681
Cultivated Area (Ha in 2010/11)	1,553,239
Key Import Suppliers	USA, Bulgaria, Italy
Net Exports (\$ in 2010/11)	(304) M



Attractiveness

- Wheat is a staple crop which despite high domestic consumption does not have sufficient local supply
- Social impact would benefit over 4.6M smallholder farmers who currently grow wheat in Ethiopia
- Significant potential to increase wheat production and add value through processing
 - Import substitution potential for up to \$300M

Investment Opportunities

- A large mill producing flour that can follow best practices from other markets to be efficient and produce high quality at lower costs
- Potential for opportunities downstream such as processing plants producing bread, pasta, biscuits, and infant foods
- Scope for investing in the cultivation of wheat on large commercial farms, with supporting out-growers who can improve their production yields and related income

Challenges

- Low levels of farmer productivity due to poor application of agronomic practices
 - Fertilizer use remains low
- Need for commercial farms to grow wheat in adequate quantities to supply processing facilities
- Lack of access to markets for farmers results in mispricing of the raw material

Note: All statistics are for Ethiopia unless otherwise specified; Net exports are defined as (Total Exports – Total Imports)

Source: CSA, FAO STAT, International Trade Center, Stakeholder Interviews, Monitor Analysis

Agriculture Investment Opportunities

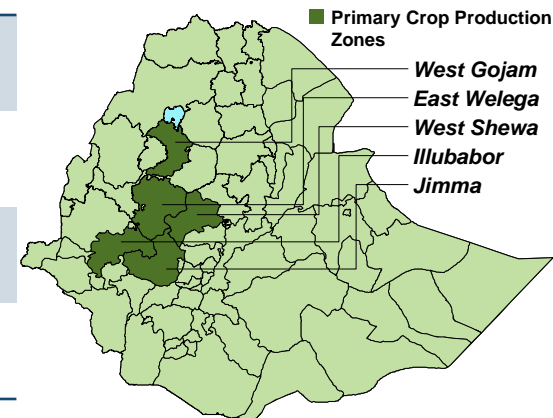
Medium-Term Opportunities in Maize

Domestic Market Oriented Commodity



Maize

Production (MT in 2010/11)	4,986,125
Cultivated Area (Ha in 2010/11)	1,963,180
Key Export Markets	Sudan, UK, Jordan
Net Exports (\$ in 2010/11)	10 M



Attractiveness

- One of the largest global maize producers with output close to 5M MT in 2010
- High social impact as over 8M farmers cultivate maize, more than any other crop in Ethiopia
- Growing demand for processed cereals in urban Ethiopia; however currently there is little processing done
 - Early mover advantage for investors who setup maize processing facilities with large untapped market

Investment Opportunities

- A large-scale maize flour mill to be used both for the preparation of cornbread for sale domestically and also other fortified products such as infant food, breakfast cereals, starch, corn oil, etc.
- A factory that can use wheat flour to prepare corn-starch ingredients for colas and sell them domestically as well as export them
- Creation of a demand sink by preparing poultry feed and selling it to poultry farmers across the country

Challenges

- Productivity remains low due to low input usage and limited crop rotation
 - Significant post-harvest loss of 15-30% of production
- Lack of developed market structures which mean that trading takes place for 3-4 months after harvest and not year-round
- No storage facilities for farmers to store maize to guard against price volatility

Note: All statistics are for Ethiopia unless otherwise specified; Net exports are defined as (Total Exports – Total Imports)
 Source: CSA, FAO STAT, International Trade Center, Stakeholder Interviews, Monitor Analysis

Agriculture Investment Opportunities

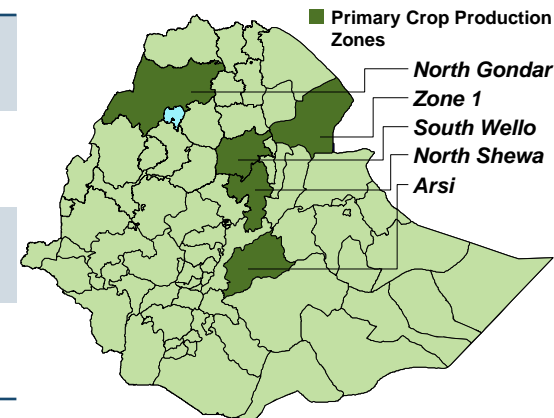
Medium-Term Opportunities in Livestock

Export Market Oriented Commodity



Livestock

Production (Heads in 2010/11)	48,295,950
No. of Holders in 2010/11	5,274,156
Key Export Markets	UAE, Saudi Arabia, Bahrain
Net Exports (\$ in 2010/11)	40 M



Attractiveness

- Over 5M smallholders involved in rearing small ruminants in Ethiopia
- High potential to expand production as currently only 7% of small ruminants are utilized for sale
- Proximity to large meat consuming markets in the Middle East provides an attractive market
 - Net exports were \$40M in 2010 but can be improved if yields and volume increase

Investment Opportunities

- Fattening small ruminants on modern ranches is a key factor to increasing yields and profitability of livestock
- Modern abattoirs located near feed lots in Addis Ababa but also in other large population centers should represent a strong business opportunity
- Investments in storage and transport (both live transport and cold transport) would stimulate the value chain and lead to further development of the sector

Challenges

- Low reproductive performance due to input constraints of feed and water
- Smallholders are often reluctant to sell livestock due to lack of alternative assets and importance to the family
- Formal trade competes with significant informal cross-border trade due to weaker incentives offered by the formal market
- Livestock cooperatives are unable to adequately support smallholders

Note: Data provided for Small Ruminants only; All statistics are for Ethiopia unless otherwise specified; Net exports are defined as (Total Exports – Total Imports)
Source: CSA, FAO STAT, International Trade Center, Stakeholder Interviews, Monitor Analysis

Agriculture Investment Opportunities

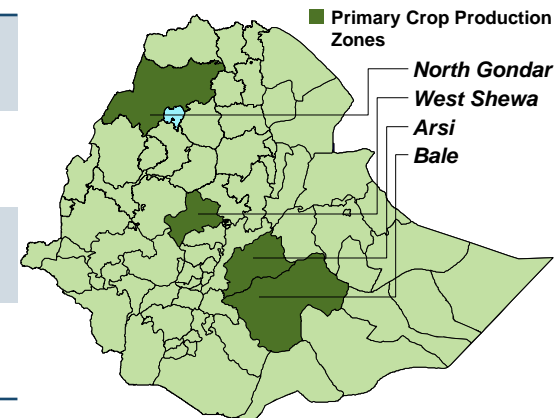
Medium-Term Opportunities in Dairy

Domestic Market Oriented Commodity



Dairy

Production (MT in 2010/11)	2,121,220
Producing Animals (An in 2010/11)	10,467,300
Key Import Suppliers	USA, Holland, Ireland
Net Exports (\$ in 2010/11)	(16) M



Attractiveness

- Huge scope for growth as average consumption of milk per capita in Ethiopia is 19 liters as compared to recommendations of 90 – 200 liters by FAO and WHO
- Commercial dairy farming is on the upswing in Ethiopia, however lack of access to infrastructure such as storage and transport has hampered growth
- Potential for sales of dairy products domestically and to select near export markets such as Djibouti

Investment Opportunities

- A business providing Artificial Insemination services could benefit the entire value chain tremendously as current Government services are poor
- Constructing cold storage and transport facilities (i.e. milk coolers) near dairy centers as well as near major population centers such as Addis Ababa
- A processing center to produce dairy products for which demand is growing given the increasing urbanization of the country

Challenges

- Low reproductive performance due to input constraints of feed and water
- Poor infrastructure such as storage and transport facilities that disrupt the value chain
- Poor Government services for Artificial Insemination preventing smallholders from breeding dairy cows adequately

Note: Dairy refers to milk and not eggs / honey; All statistics are for Ethiopia unless otherwise specified; Net exports are defined as (Total Exports – Total Imports)
Source: CSA, FAO STAT, International Trade Center, Stakeholder Interviews, Monitor Analysis

Agriculture Investment Opportunities

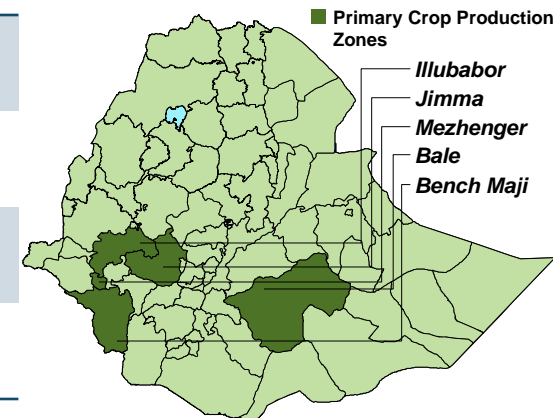
Medium-Term Opportunities in Honey

Export Market Oriented Commodity



Honey

Production (MT in 2010/11)	53,675
No. of Beehives in 2010/11	5,130,322
Key Export Markets	Sudan, Norway, Germany
Net Exports (\$ in 2010/11)	2 M



Attractiveness

- Currently production is 53,600 MT and exports amounted to \$2M in 2010; however both could be increased significantly given investment in the value chain
- Honey could be grown in the northwestern part of the country where organic coffee and spices are currently grown
- Organic honey with special aromas or other distinguishing features could command price premium in niche markets

Investment Opportunities

- The establishment of honey farms (beekeeping) to cultivate honey on a large scale
- Further downstream there are opportunities for honey processing and packaging plants
- Other offshoots could include the production of cosmetics that are based on bee-products

Challenges

- Lack of access to technology for farmers to best cultivate modern beehives and cultivate honey
- Poor post-harvest handling of honey leads to a shortage of good quality crude-honey
- Absence of a regulatory body and quality control mechanisms are also important constraining factors that need to be resolved by the Ministry of Agriculture

Note: All statistics are for Ethiopia unless otherwise specified; Net exports are defined as (Total Exports – Total Imports)

Source: CSA, FAO STAT, International Trade Center, Stakeholder Interviews, Monitor Analysis

Agriculture Investment Opportunities

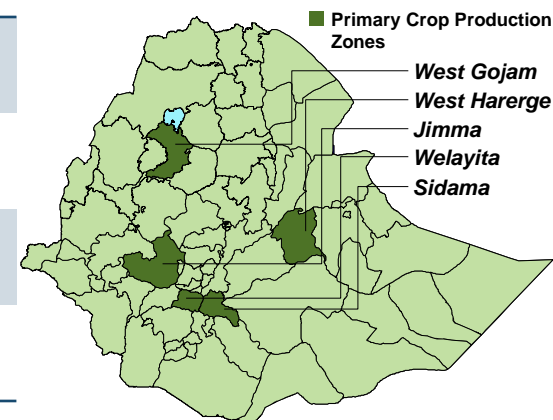
Medium-Term Opportunities in Sugarcane

Domestic Market Oriented Commodity



Sugarcane

Production (MT in 2010/11)	1,187,774
Cultivated Area (Ha in 2010/11)	23,342
Key Import Suppliers	Brazil, Thailand
Net Exports (\$ in 2010/11)	(116) M



Attractiveness

- Ethiopia has an ideal climate for the cultivation of sugarcane with a competitive advantage for domestic and export markets
 - Yield is 2nd highest in the world
- The Government has identified the sugar industry as a strategic sub-sector for industrial development
- Some of the important export markets for sugar and by-products of sugar include Djibouti, the UAE and Portugal

Investment Opportunities

- The establishment of large commercial farms to produce sugar should provide a good business opportunity given the high yields possible and the large domestic and export market potential
- Processing of by-products such as molasses for livestock feed or for alcohol could provide more high value opportunities

Challenges

- Need for improved contract farming systems to improve yields and volumes of sugarcane as farmers receive greater incentives
- Insufficient credit, financing and expertise to effectively access and use inputs (e.g. fertilizers)
- Efficiency in manufacturing facilities needs to be improved through the use of better training of operators and labor

Note: All statistics are for Ethiopia unless otherwise specified; Net exports are defined as (Total Exports – Total Imports)

Source: CSA, FAO STAT, International Trade Center, Stakeholder Interviews, Monitor Analysis

Agriculture Investment Opportunities

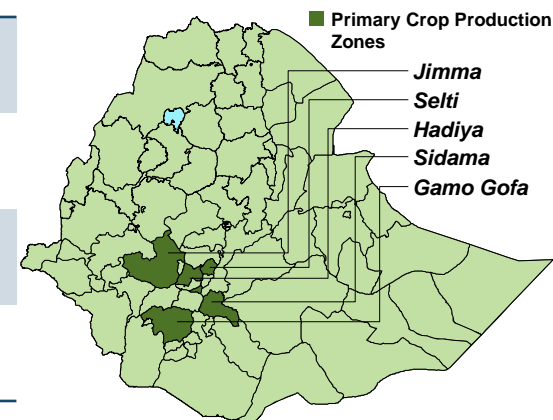
Medium-Term Opportunities in Fruits & Vegetables

Domestic Market Oriented Commodity



Fruits & Vegetables

Production (MT in 2010/11)	1,161,882
Cultivated Area (Ha in 2010/11)	181,322
Key Export Markets	Somalia, Sudan, Djibouti
Net Exports (\$ in 2010/11)	375 M



Attractiveness

- High potential for expanded production as currently only 1% of cultivated land is used to grow fruits & vegetables
- Wide variety of fruits & vegetables can be grown in Ethiopia including mango, banana, papaya, avocado, citrus, grape, and pineapple
- Exports of vegetables bring in valuable foreign exchange amounting to almost \$400M in 2010, much of it exported to Somalia and Djibouti

Investment Opportunities

- The cultivation of fruits and vegetables especially for export to Middle Eastern and East African markets
- Processing of fruits and vegetables for sale in domestic markets should also have good returns as they can be targeted at the urbanizing domestic market, which is increasingly demanding more processed foods
- Associated with processing opportunities are canning and storage facilities for fruits and vegetables

Challenges

- Quality of cultivation is very poor due to inappropriate agronomic practices in use by farmers
- Lack of adequate storage facilities for highly perishable items such as fruits & vegetables leads to losses as high as 40% of production
- Need for cold storage transport infrastructure to improve shelf life of products as they are transported to markets

Note: All statistics are for Ethiopia unless otherwise specified; Net exports are defined as (Total Exports – Total Imports); shading of primary crop production zones based on aggregated production statistics of multiple fruits/vegetables

Source: CSA, FAO STAT, International Trade Center, Stakeholder Interviews, Monitor Analysis

Agriculture Investment Opportunities

Short-Term Opportunities in Sesame

Export Market Oriented Commodity



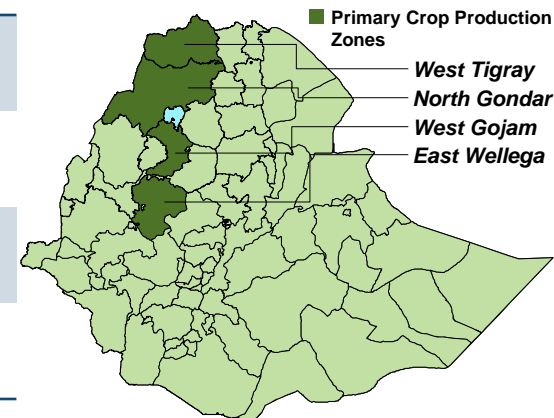
Sesame

Production
(MT in 2010/11) 327,741

Cultivated Area
(Ha in 2010/11) 384,683

Key Export Markets
China, Israel, Jordan

Net Exports
(\$ in 2010/11) 303 M



Attractiveness

- Ethiopia is world's 3rd largest sesame exporter behind Nigeria and India
- World demand for sesame is increasing, with global sesame exports growing 26.1% from 2007-2010
- Majority of Ethiopian sesame is exported raw and processed in intermediary or end-market
- There is opportunity to add value through pre-export processing

Investment Opportunities

- A plant to hull sesame seeds for export to international markets such as the EU, US, and Mexico – expected to cost \$6.5M and result in an IRR of 43%
- A plant to process sesame oil as this product can serve as a replacement for palm oil and early investors would gain early mover advantage
- As the sesame sector improves in Ethiopia, there is an opportunity to produce tahini for export to international markets

Challenges

- High cost of raw seeds due to high quality and labor intensive harvesting
- Price inflation due to ECX regulations on sesame export
- Inadequate forecasting of global competitiveness of end-products
- Limited experience processing sesame in country
- Low-cost international processing facilities as competitors
- Poor water / energy infrastructure

Note: All statistics are for Ethiopia unless otherwise specified; Net exports are defined as (Total Exports – Total Imports)

Source: CSA, FAO STAT, International Trade Center, Stakeholder Interviews, Monitor Analysis

Agriculture Investment Opportunities

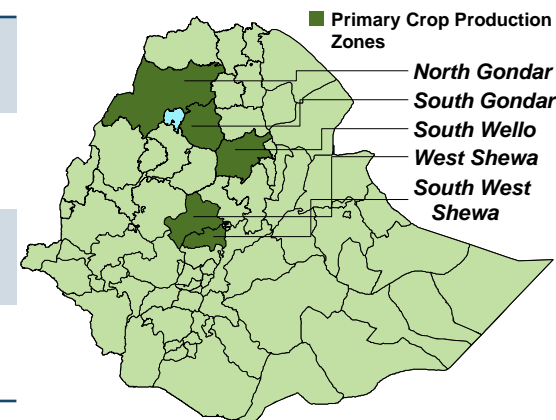
Short-Term Opportunities in Chickpea

Domestic Market Oriented Commodity



Chickpea

Production (MT in 2010/11)	322,839
Cultivated Area (Ha in 2010/11)	208,389
Key Export Markets	Pakistan, Sudan, UAE
Net Exports (\$ in 2010/11)	30 M



Attractiveness

- Production has increased by 11% annually over the last few years
- Domestic consumption has increased steadily over the past five years, growing from 56% in 2006 to 83% in 2010 of total Ethiopian production
 - Chickpea flour is emerging as a substitute for wheat flour, and growing recognition of its significant protein content at a more reasonable price than other sources such as meat

Investment Opportunities

- A chickpea flour plant producing 15,000 MT of flour a year for sale domestically with required investment of \$6.5M and projected IRR of 34%
- A plant producing chickpea paste for sale domestically as locals can use it in producing traditional foods such as shiro
- A plant producing hummus, a Lebanese dip which is extremely popular in the Middle East and which could be exported to those markets

Challenges

- Inefficient land allocation process for chickpea production and processing
- Insufficient credit, financing and expertise to effectively access and use inputs (e.g. high-yield chickpea seeds, fertilizers)
- Under-developed transportation, storage and distribution infrastructure, which increases costs of moving chickpeas from production regions to processing facilities and end-markets

Note: All statistics are for Ethiopia unless otherwise specified; Net exports are defined as (Total Exports – Total Imports)

Source: CSA, FAO STAT, International Trade Center, Stakeholder Interviews, Monitor Analysis

Agriculture Investment Opportunities

Short-Term Opportunities in Barley

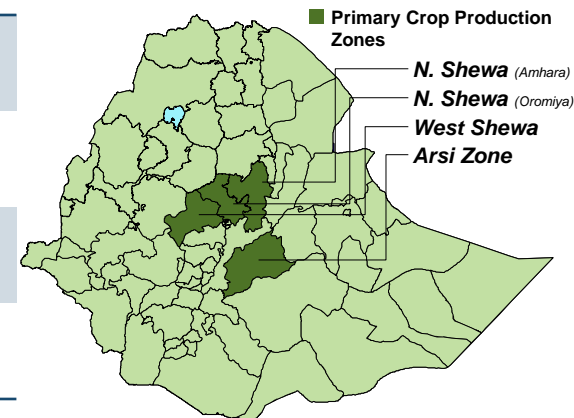


Domestic Market Oriented Commodity



Barley

Production (MT in 2010/11)	1,703,347
Cultivated Area (Ha in 2010/11)	1,046,555
Key Export Markets	Israel, Canada, USA
Net Exports (\$ in 2010/11)	-



Attractiveness

- Driven by the growth in the beer industry, there is a lot of potential for malt barley to grow
 - Beer has been growing at 20% per year for the last 5 years, from a low base (4 liters per capita per annum, a third of that in Kenya)
 - However ~60% of malt is imported
- Barley is also consumed as food, though it is a cottage industry

Investment Opportunities

- A malting plant with capacity of at least 15,000 MT to supply the breweries that face shortages of supply from Assela. Requires an investment of \$25M and should yield an IRR of 24%
- A brewery producing beer in Ethiopia for sale domestically. Demonstrated by the intent of numerous domestic operators to establish breweries indicating it is still a viable business opportunity despite presence of multiple brewers

Challenges

- Poor fertilizer application leading to higher yields, but poor quality for brewers
- Farmers do not honor contracts with malting plant, may sell on open market if price improves
- Farmers are not committed to growing barley and may switch to other crops when prices improve for tef, wheat, etc.

Note: All statistics are for Ethiopia unless otherwise specified; Net exports are defined as (Total Exports – Total Imports)

Source: CSA, FAO STAT, International Trade Center, Stakeholder Interviews, Monitor Analysis

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Investors and stakeholders working in Ethiopia's agricultural sector face 11 key risks, for which mitigation measures are underway by Government, donor, and private sector actors

Supply Chain Risks

- 1) Difficulty Financing and Distributing Inputs
- 2) Low Capacity / Productivity of Smallholder Farmers and Cooperatives
- 3) Infrastructure
- 4) Variable Commodity Prices
- 5) Environmental Factors

Political / Regulatory Risks

- 6) Restrictive and Uncertain Policy / Regulatory Environment
- 7) Lack of Private Sector Input into Policy Making
- 8) Delays from Government Bureaucracy

Market Risks

- 9) Access to / Competitiveness in Export Markets

Financial Risks

- 10) Difficulty Accessing Capital / Credit
- 11) High Inflation

Organizations working to improve farmer access to proper inputs emphasize private sector partnerships, financial literacy and savings, and cooperative development

1 Difficulty Financing and Distributing Inputs

Investors note the importance of a stable and high quality supply of raw materials for agriculture investments. When farmers are not able to finance the proper inputs, the result is lower yields and ultimately higher farm-gate prices, which impacts supply chain security.

Mitigation Strategy	Lead
Key ATA programs provide farmers with resources needed to stabilize production of raw materials; to engage the private sector, ATA has developed business cases for 3 priority value chains	ATA
A new state-owned fertilizer plant, to be built in the Oromia region west of Addis Ababa, has set a target of providing 550,000 tons of fertilizer to the agricultural sector by 2014	EMEC
The Agricultural Growth Program (AGP) supports SHFs in securing inputs needed for successful harvests by investing in selected value chains and promoting increased private sector investment	AGP
World Council of Credit Unions (WOCCU) strengthens rural credit unions to improve credit access for local farmers and small businesses, which will enable growers to finance their production costs	WOCCU
USAID's Feed the Future (FTF) project engages the private sector and builds SHF capacity , which will directly improve growers' ability to finance and access the inputs needed for successful harvest	USAID
The USAID AGP Agri-business and Marketing Development (AGP-AMDe) initiative takes a value chain approach to enhance access to finance for SHFs and increase private sector engagement; this helps growers secure access to proper tools and inputs	USAID (ACDI/VOCA)
The Pastoral Community Development Project supports socio-economic development through cooperative capacity building, including the ability to purchase and distribute seed and other inputs	World Bank
The Business Organizations and Access to Markets (BOAM) program provides loans, grants, and other financing mechanisms in addition to facilitating linkages between financial service providers and potential clients along various value chains	SNV

Farmer improvement initiatives focus heavily on building capacity of farmers / cooperatives through modern agronomic training, financing, new technology, and private sector engagement

2 Low Capacity / Productivity of Smallholder Farmers and Cooperatives

Investors rely on cooperatives to provide high quality crops and serve as an aggregator of individual producers. Low sophistication and capacity of both SHFs and cooperatives affects supply and quality of raw materials, but can be improved with capacity building efforts.

Mitigation Strategy	Lead
Many of the ATA's agriculture development programs focus extensively on improving the capacity of SHFs and cooperatives. These include the Cooperatives Program , the Extensions and Research Program , the Value Chains Program , and the Technology Access & Adoption Program	ATA
The Chickpea Alliance is a public private partnership designed to improve the capacity of chickpea farmers by improving inputs and introducing modern agronomic processes	ATA, PepsiCo, WFP, USAID
Diageo and Heineken are working to establish a sustainable, multi-year local sourcing program for barley that ensures smallholder farmers are linked to predictable markets and income streams	ATA, Heineken, Diageo, USAID
The AGP invests in value chains to improve cooperative capacity, farm productivity and SHF incomes	AGP (MoA)
The Agriculture Sector Support Project promotes capacity building, small scale irrigation, water harvesting, and environmental conservation practices in rural areas	MoA, ADB
The USAID AGP AGP-AMDe program uses a value chain approach to increase the competitiveness of select agriculture products	USAID (ACDI/VOCA)
FTF works to strengthen value chains , promote private sector engagement , and build capacity of smallholder farmers and cooperatives through new technologies and farming practices	USAID
By building capacity for market-oriented agriculture products, CIDA has a number of projects which aim to improve yields and capacity of SHFs throughout Ethiopia. In particular, the projects focus on increasing SHF access to markets and information, while simultaneously improving the quality of agro-inputs, storage, and processing facilities.	CIDA



Major planned infrastructure improvements include nearly 75k km of new roads and railways, broad expansion of access to electricity, and bringing water infrastructure to 99% of Ethiopia

3 Infrastructure

Though there has been considerable improvement over the past ten years, investors operating in Ethiopia continue to face challenges with infrastructure. Poor roads raise the cost of transportation and the process for getting water / electricity can be costly and unreliable.

Mitigation Strategy	Lead
<p>The Growth and Transformation Plan is an ambitious set of national investments worth nearly \$75B USD that will significantly upgrade both hard and soft infrastructure between 2010 and 2015. Projects include:</p> <ul style="list-style-type: none">• Building 71,000 km of new roads, including an expressway linking Addis Ababa to Adama (a key route to facilitate export and import trade)• Constructing 2,395 km of new railways linking Addis Ababa with Djibouti and linking selected domestic cities• Laying 132,000 km of new electricity distribution lines within Addis Ababa and expanding electricity coverage to 75% of the country• Expanding the water supply infrastructure to cover 99% of the population and the drilling of some 3,000 water wells per year	MoFED
<p>The ADB is financing investments in infrastructure upgrades, including projects to complete major road upgrades, improving electricity networks in rural areas, and investing in the development of renewable energy sources of wind and solar power</p>	ADB

Efforts to build capacity in SHF and cooperatives and improve inputs, farming practices, and access to capital will help stabilize changing commodity prices

4 Variable Commodity Prices

Variations in weather, seed quality, and available financing for inputs can affect crop yields; as a result, farm-gate prices fluctuate consistently. Shifting commodity prices make it difficult for investors to predictably assess the cost of goods sold and can impact profitability.

Mitigation Strategy	Lead
Many of the agriculture development programs run by ATA focus on improving the capacity of SHFs and cooperatives to predict and plan for market demand, negotiate advance agreements with purchases, and implement proper post-harvest handling tactics. These capabilities will help stabilize crop prices by producing the size, amount, and type of product demanded by the market, and smoothing the distribution throughout the year to prevent market gluts and shortages. These programs include the Cooperatives Program , the Extensions and Research Program , the Value Chains Program , and the Technology Access & Adoption Program	ATA
A key target of the Agricultural Growth Program is to improve smallholder farmer incomes through investment in selected value chains and by promoting increased private sector investment	AGP (MoA)
Organizations such as ATA are working to enable and enhance the contract farming system in Ethiopia. Contract farming helps stabilize prices by reducing costs associated with searching for trading partners, providing advance market signals to growers, and connecting large quantities of goods with purchasers	ATA, Investors
In support of USAID's FTF mission, the USAID AGP-AMDe initiative takes a value chain approach to enhance access to finance and stimulate innovation and private sector involvement with SHFs; improved product and markets will help stabilize commodity prices	USAID (ACDI/VOCA)

There are numerous initiatives which focus on helping farmers adapt to the effects of weather variations that may affect crop production and impact security of raw material supplies

5 Environmental Factors

Negative impacts of climate change pose a risk to an investor's ability to secure the necessary crop supply. Weather variations such as droughts or heavy rains can adversely affect harvests and crop yields, raising production costs and challenging the security of raw material supply.

Mitigation Strategy	Lead
ATA projects, including the Household Irrigation Project, Soil Health and Fertility Management Project, and Climate Change Adaptation and Environmental Sustainability Project , seek to address the growing set of environmental challenges facing Ethiopia, particularly through agriculture interventions. The Technology Access & Adoption Project identifies and implements new agriculture technologies to improve smallholders' productivity in the face of changing climactic conditions	ATA
A 5-year Climate Change Initiative Strategy is under development to guide investments in climate change adaptation	USAID
DFID is implementing a project designed to assist people and farmers in coping with the shocks of climate change	DFID
The Agriculture Sector Support Project promotes small scale irrigation, water harvesting, and environmental conservation practices in rural areas	MoA, ADB
Managing Environmental Resources to Enable Transition (MERET) promotes sustainable land and water management practices to increase productivity and reverse environmental degradation	WFP

Government initiatives to increase transparency in the policy environment are coupled with donor programs to improve capacity of policy-makers and introduce best practices

6 Restrictive and Uncertain Policy / Regulatory Environment

Ethiopia's policy and regulatory environment is often viewed as overly restrictive and unnecessarily complicated. Unexpected policy changes and uncertainty around government privatization plans lead to investor hesitation, particularly for investors new to Ethiopia

Mitigation Strategy	Lead
A planned PMU housed within the ATA will serve as a single point of contact for all agriculture related investments to ensure the private sector is supported through the investment process. PMU functions would include facilitating serving as an information clearing house for investment opportunities and advocating policy recommendations on behalf of investors	ATA
Responding to negative effects of new policy directives, the Government of Ethiopia has shown flexibility in its willingness to reverse or loosely enforce poorly studied / planned initiatives	MoA, MoTI, MoFED
Ongoing trade negotiations with organizations such as the WTO will result in increased government attention to streamlining the process for investment in Ethiopia in order to make international trade increasingly attractive	MoTI
Part of the FTF mission seeks to increase exposure to best practice tours and trainings for public and private sector actors in order to improve policy maker capacity to support agriculture-led economic growth	USAID
A planned DFID project would seek to improve the administration of land and land markets in Ethiopia, thereby driving private sector growth and improve productivity of businesses in Ethiopia	DFID
The Business Organizations and Access to Markets (BOAM) program facilitates the design, implementation, and evaluation of public policies through an analytical framework in order to improve the policy environment in Ethiopia	SNV

Risks and Mitigation Strategies

Political / Regulatory Risks (2/3)



In response to investor concerns, Government agencies are implementing formalized mechanisms to include private sector actors in policy discussions

7 Lack of Private Sector Input into Policymaking

Investors express a feeling of disengagement from the Ethiopian policy making process, and there are concerns that the Government makes policy decisions with little regard to impact on private sector activities. As a result, investors may be hesitant to invest in Ethiopia.

Mitigation Strategy	Lead
The Ethiopian Public Private Consultative Forum (EPPCF) is a forum designed to address concerns that policies are made without considering the impact on private sector engagement	ECCSA, MoTI
The Private Sector Development Hub (PSD Hub) is a semi-autonomous agency that designs and prepares interventions to address private sector concerns to be implemented by donors and other Government agencies. The PSD Hub is planned to be subsumed by the EPPCF in the next two years.	AACCSA, SIDA
A planned PMU housed within the ATA will serve as a single point of contact for all agriculture related investments to ensure the private sector is supported through the investment process	ATA
One element of the FTF mission is the Policy and Capacity Enabler , which focuses on improving the ability of policymakers and selected stakeholders to conduct analyses and influence policy	USAID
The Donor Committee for Enterprise Development (DCED) supports PSD coordination groups , such as Ethiopia's PSD&T TWG, by sharing knowledge and best practices from PSDs across Africa	DCED

Risks and Mitigation Strategies

Political / Regulatory Risks (3/3)



A PMU housed in ATA will serve as a single point of contact for companies looking to operate in Ethiopia, helping navigate start-up processes and coordinate between relevant gov't agencies

8 Delays from Government Bureaucracy

With no clear process for establishing a business in Ethiopia, investors are often redirected before obtaining necessary permits and approvals. These hurdles are compounded by poor coordination government agencies, which can lead to delays and extra costs of investment.

Mitigation Strategy

The planned **creation of a PMU, to be housed under the ATA**, will serve as a single **point of contact for all agriculture related investments to ensure the private sector is supported** through the entire investment continuum, from country promotion to investor servicing. PMU functions would include facilitating country promotion / investor outreach, serving as an information clearinghouse for investment opportunities, providing end-to-end investor servicing, and advocating policy recommendations on behalf of investors

Lead

ATA

Ongoing negotiations with trade organizations such as the WTO, and public-private partnerships should help open up new markets for Ethiopian exports

9 Access to / Competitiveness in Export Markets

Domestic investors may be limited by access to export markets. Domestic companies must work to secure access to international markets by developing international trade relationships

Mitigation Strategy	Lead
As Ethiopia continues to secure and solidify international trade agreements, investors will have increased access to secure markets. Ongoing trade negotiations with organizations such as the WTO will see increased Government attention to make the process for investment more attractive	MoTI, MoA
ATA's focus on Public Private Partnerships will help bring experienced international investors to the agricultural sector. Engaging the private sector is key to long-term export market development, and will help build Ethiopia's broader profile as an agricultural supplier; as part of this, ATA has identified 3 priority value chains for analysis and developed associated business cases	ATA
In support of USAID's FTF mission, the USAID AGP-AMDe initiative takes a value chain approach to enhance access to finance and stimulate innovation and private sector involvement with SHFs, including specific actions to expand market access for domestic companies	USAID (ACDI/VOCA)

International investors voice concerns about being competitive on the global market with Ethiopian sourced goods, as Ethiopia's agriculture landscape is not widely understood

Mitigation Strategy	Lead
Under the Ethiopian Soil Information System (EthioSIS) , a new detailed soil fertility map will be available for investors to understand where agricultural investments are likely to succeed and what kind of investment will be required to improve crop yields, increasing product quality and therefore global competitiveness	ATA

To increase credit availability, the DBE is implementing a \$1.7B USD loan program over the next 5 years; gov't and donors are working to strengthen / broaden the financial services sector

10 Difficulty Accessing Capital / Credit

A major lending plan by the Development Bank of Ethiopia is slated to lend \$1.7B USD over the next five years, but does not have the capacity to make the full loans. Companies seeking loans must lobby banks, but are not guaranteed that funding will be available.

Mitigation Strategy	Lead
The DBE is implementing a major \$1.7B USD lending plan which allocates 40% to agricultural projects . Spending is slated to span five years, lending approximately \$340M USD per year.	DBE
The ATA's Inputs & Output Markets program focuses on increasing the amount and efficiency of financing for agricultural value chain actors and agro-processors by facilitating timely access to finance	ATA
The Privatization and Public Enterprise Supervisory Agency plans to privatize a range of nationally owned companies , bringing money to the GoE and reduce reliance on loans, freeing up loan capital	PPESA
The Financial Sector Technical Assistance Program finances activities that will develop financial infrastructure and improve reach, offerings, and efficiency of the financial sector	MoFED, ADB
A planned but not yet proposed or reviewed ATA-led effort will propose that investments in the agricultural sector be exempted from the 27% rule, citing agriculture's importance to the economy	ATA
The Finance and Business Services Project is designed to strengthen and broaden the financial sector to foster private sector development and competitiveness	USAID
In conjunction with bilateral donors, USAID is working to establish a Multi-Donor Fund for Private Sector Development which would bring money together to facilitate private sector investment	USAID
The Private Enterprise Programme Ethiopia is dedicated to supporting businesses and entrepreneurs in financing viable businesses to drive economic growth and job creation	DFID

Inflation rates have already reduced from 38% to ~18%, and are projected to slow even further to 12%, following 2011 Government measures to slow inflation and protect investments

11 High Inflation

High inflation rates threaten to devalue investments as increasing operational costs can make domestically produced goods non-competitive on an international market full of lower cost goods. Following government policy changes, inflation rates have already reduced by half.

Mitigation Strategy	Lead
Following a February, 2011 meeting EPPCF, the Government lifted price caps on selected basic commodities that had originally been put in place to help manage inflation but actually inflamed it	MoFED
The Government has committed to avoiding direct financing through the Central Bank , which has already begun to have a positive impact on managing inflation rates	MoFED
The Privatization and Public Enterprise Supervisory Agency (PPESA) has plans to privatize a range of nationally owned companies in the next five years, which will bring cash into the Government and reduce reliance on loans from the Central Bank , which are highly inflationary	PPESA

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- Appendix

- In parallel to this Private Sector Action Plan, detailed investment cases were developed for three immediate investment opportunities (a barley malting plant, a sesame hulling plant, and a chickpea flour processing plant) and presented to potential investors as part of the Grow Africa Forum in Addis Ababa, 8-9 May 2012
- The broad information package that Ethiopia presented at the Forum included:
 - Country Narrative — a short description of why Ethiopian agriculture is attractive for investors
 - Investment Prospectus — Deep-dive business cases of investment opportunities and the actions being taken to create a robust enabling environment for these opportunities

For further information, contact the following organizations:

Ethiopia Agricultural Transformation Agency

7th Floor Sequala Complex

Jomo Kenyatta Road, Addis Ababa

Tel: +251 11 557 06 78

Fax: +251 11 557 06 68

Key Contacts:

Khalid Bomba, CEO, ATA (khalid.bomba@ata.gov.et)

Mirafe Marcos, Special Programs Officer, ATA (mirafe.marcos@ata.gov.et)

Website: <http://www.ata.gov.et>

Trade and Investment Divisions at Ethiopian Embassies

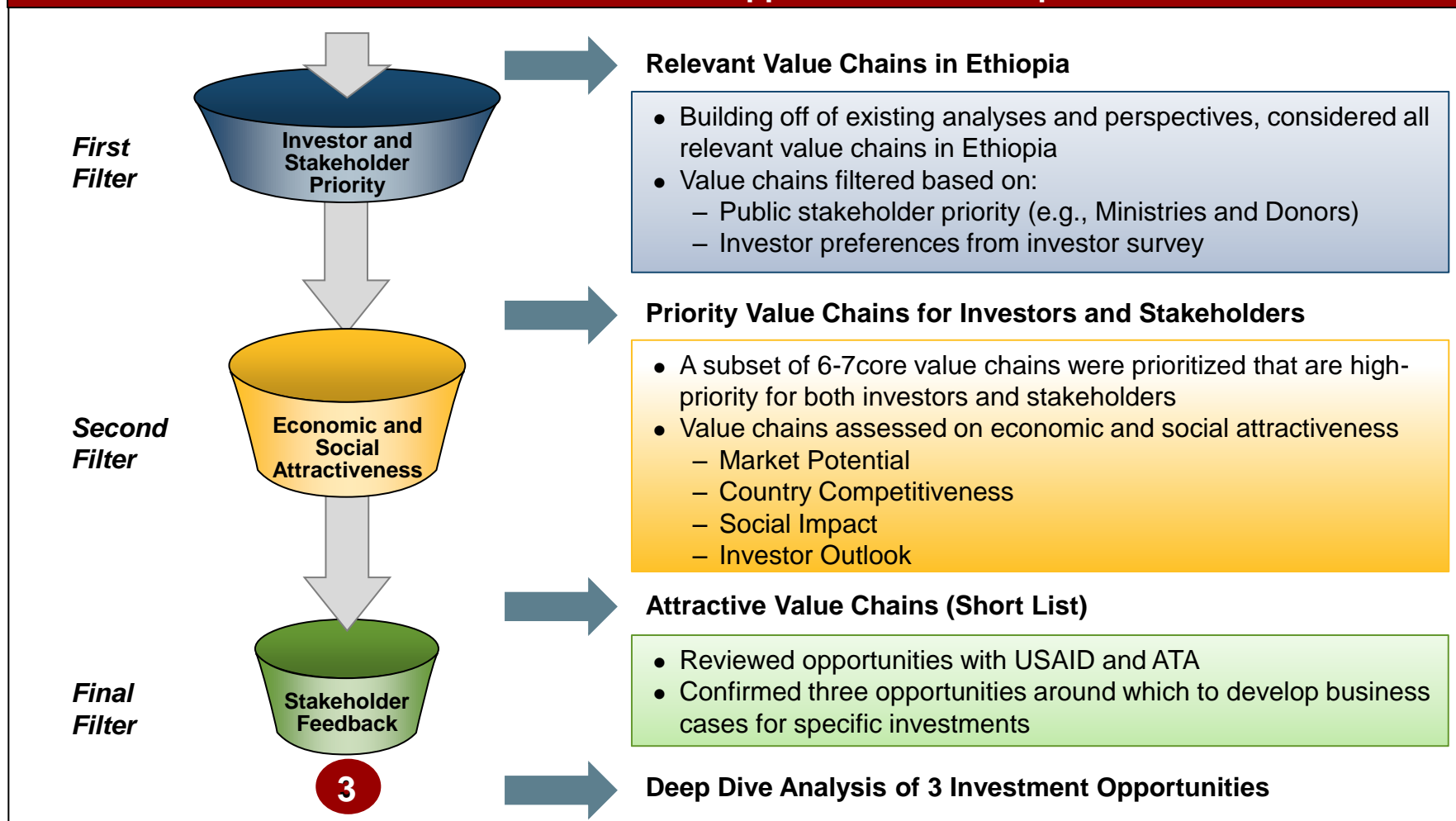
Interested investors can also contact the Trade & Investment Division of the Embassy of Ethiopia in their home country

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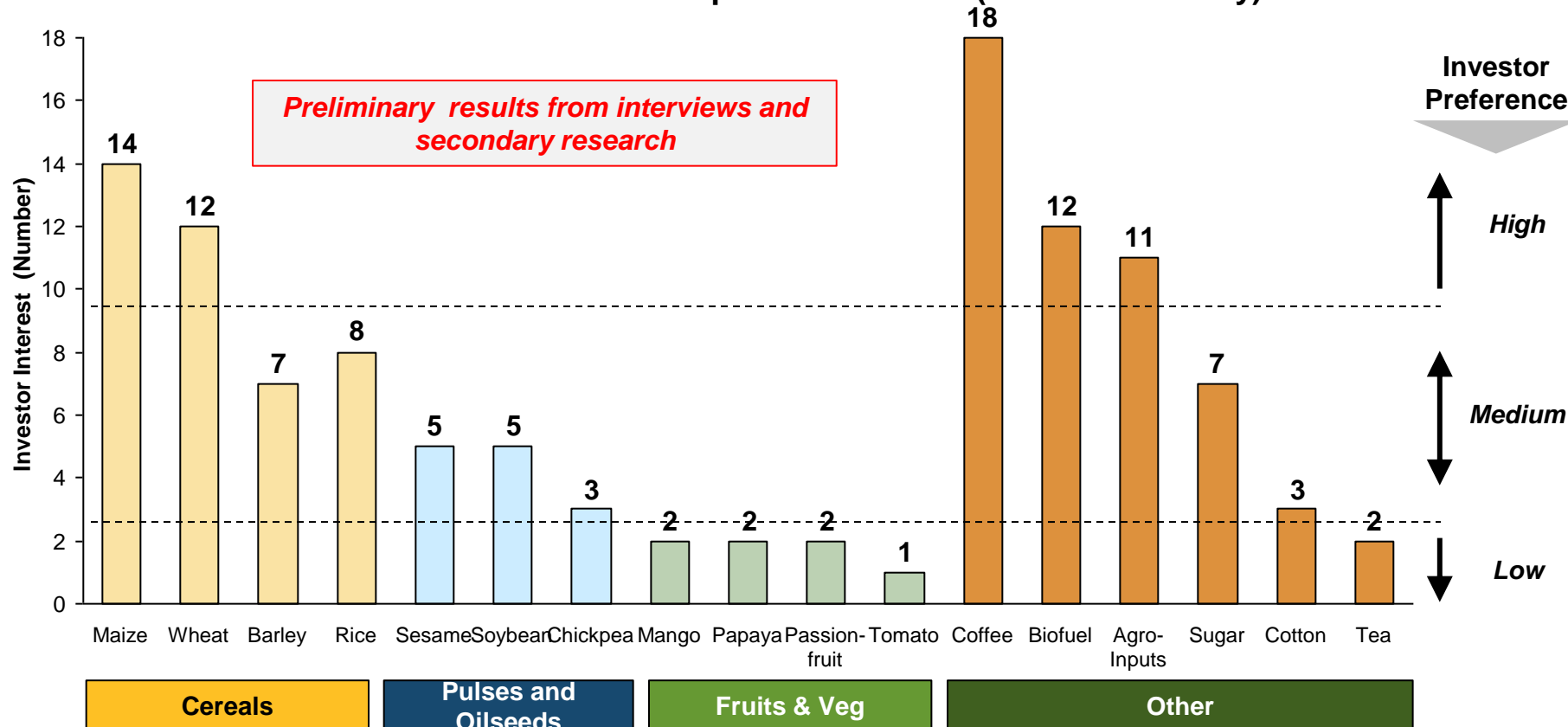
Value chains were filtered through three sets of criteria to determine which three value chains should be prioritized for deep dive investment opportunities

Selection of 3 Investment Opportunities for Deep Dive



Recent investors interested in Ethiopia had expressed a preference for value chains such as coffee, biofuels, agro-inputs, maize and wheat

Investor Preference in Ethiopia Value Chains (as of 22 February)^{1 2}



Note: ¹ Figures represent value chain interest from global and pan-Africa investors who are currently active or considering investment in Ethiopia in previous Monitor interviews and/or secondary research documentation; this more recent coverage overlaps with recent large upswing in large-scale land transfer investments; ² Single responses in multiple value chains (e.g., cattle, chicken, dairy, leather, tomato)

Source: Investor interviews; secondary research; Monitor Analysis







Stakeholders had initially aligned around wheat, maize and agro-inputs as priority value chains, and further stakeholder conversations detailed additional priorities

		Cereals				Pulses and Oilseeds					Fruits and Veggies							Industrial / Other				
		Wheat	Tef	Barley	Maize	Chickpea	Soya Bean	Niger Seed	Sesame	Linseed	Potato	Tomato	Onion	Mango	Avocado	Apple	Papaya	Coffee	Honey	Livestock	Dairy	Agro-inputs
GoE	ATA	X	X		X	X	X															X
	AGP/GTP	X	X	X	X	X	X	X	X	X	X	X	X					X	X	X	X	X
	MoTI	X	X	X	X			X	X	X								X				X
	MoA / SMoA ¹			X		X			X													
Donors	USAID	X			X	X	X		X									X	X	X	X	X
	FAO	X	X	X	X									X	X	X	X			X	X	X
	Gates	X				X	X											X				X

Note: 'X' indicates a priority value chain for the stakeholder's development agenda in Ethiopia. A significant no. of donor organizations note explicit alignment with the AGP/GTP, including: African Development Bank, DFID, IFAD, GTZ, UNDP, WFP, World Bank. 1) Based on inputs from conversation with Minister and State Ministers of Agriculture, week of 2/21/12

Source: ATA Grow Africa November 2011 presentation, Agricultural Growth Program and Growth and Transformation Plan documents, UNIDO/MoTI agro-processing report, donor websites and reports, Monitor analysis

After considering investor and stakeholder priorities and discussing with ATA and USAID, wheat, barley, maize, chickpea, sesame, and livestock were prioritized for further analysis

	Crop	Investor Priority	Stakeholder Priority		Crop	Investor Priority	Stakeholder Priority
Cereals	 Wheat	HIGH	HIGH	Pulses /Oilseeds	 Chickpea	MID	HIGH
	Tef	LOW	HIGH		Soya Bean	LOW	HIGH
	 Barley	MID	MID		Niger Seed	LOW	MID
	 Maize	HIGH	HIGH		 Sesame	MID	MID
	Rice	LOW	LOW		Linseed	LOW	MID
Fruits /Vegetables	Potato	LOW	LOW	Industrial/Other	Coffee	HIGH	HIGH
	Tomato	LOW	LOW		Honey	LOW	MID
	Onion	LOW	LOW		 Livestock	MID	MID
	Mango	LOW	LOW		Dairy	MID	MID
	Avocado	LOW	LOW		Sugar	MID	LOW
	Apple	LOW	LOW		Agro-Inputs	HIGH	HIGH
	Papaya	LOW	LOW				

Priorities for Further Analysis



Selected for further investigation post discussions with ATA and USAID

The second filter assessed value chains across metrics of market potential, competitiveness and social impact in order to evaluate economic and social attractiveness

		Description	Metrics for Measurement ¹
Economic	Market Potential	<ul style="list-style-type: none"> Current and potential market for product / commodity in either domestic and/or international markets 	<ul style="list-style-type: none"> <i>Domestic Consumption & CAGR (2006-10)</i> <i>Global Consumption & CAGR (2006-10)</i> <i>Value of Exports in 2010-11</i>
	Competitiveness	<ul style="list-style-type: none"> Potential for value chain to prosper in Ethiopia, given current environment and competition in the region 	<ul style="list-style-type: none"> <i>Ethiopia's yield relative to benchmarked nations</i> <i>Ethiopia's exports relative to benchmarked nations</i> <i>Ethiopia's share of trade within top 3 export markets</i>
Social	Social Impact	<ul style="list-style-type: none"> Importance of the commodity to secure food (or increase) income for farmers 	<ul style="list-style-type: none"> <i>Share of commodity used for household consumption</i> <i>Average earnings per farmer</i>

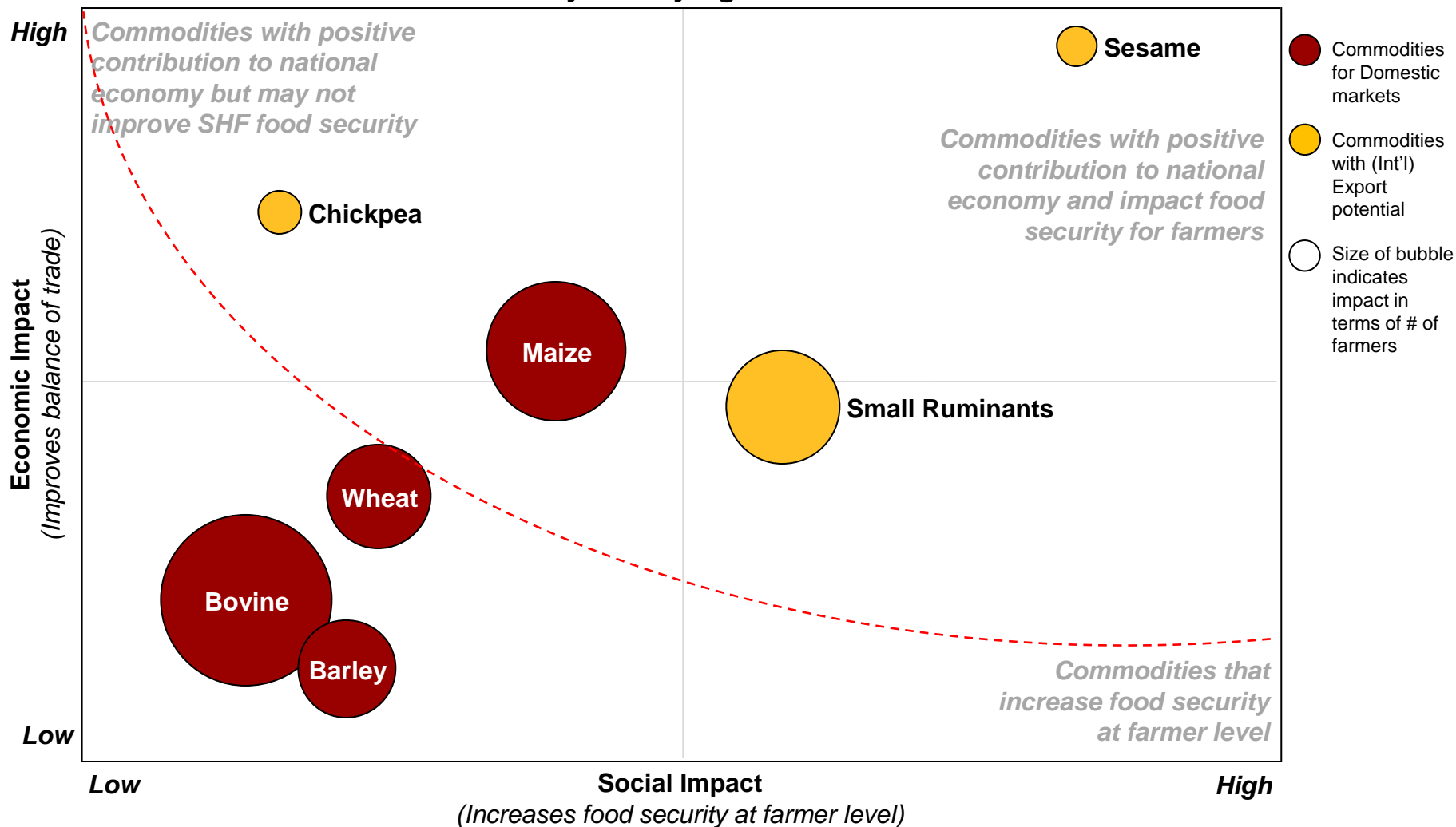
¹ Based on data from government database, as well as validated with other reports and studies (e.g. FAO, International Trade Center, etc.)
 Note: Each value chain was given a relative ranking based on the metric score (i.e., higher domestic consumption and export value mean a higher rank in terms of market potential); Benchmarked nations are Kenya, Tanzania and Uganda
 Source: Monitor Analysis

Prioritization of Value Chains

Filter 2 – Stakeholder Priority



Stakeholder Priority on Key Agricultural Commodities



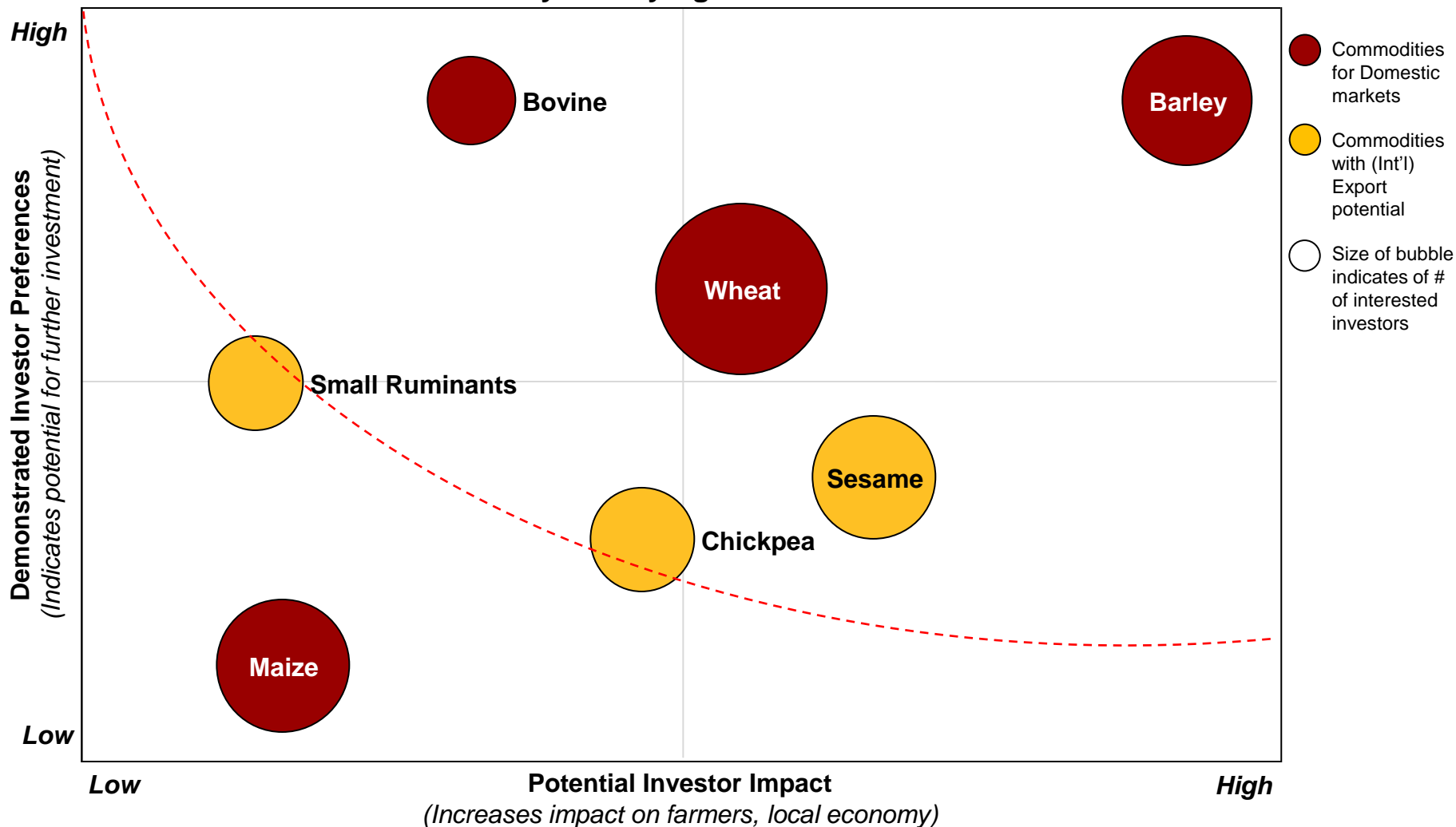
Note: Weights are assigned to metrics to calculate relative ranking on Economic Impact and Social Impact
 Source: FAO, International Trade Center, CSA Ethiopia, Secondary Research, Team Discussions, Monitor Analysis

The second filter also assessed value chains on demonstrated investor preferences and the potential for further investor impact

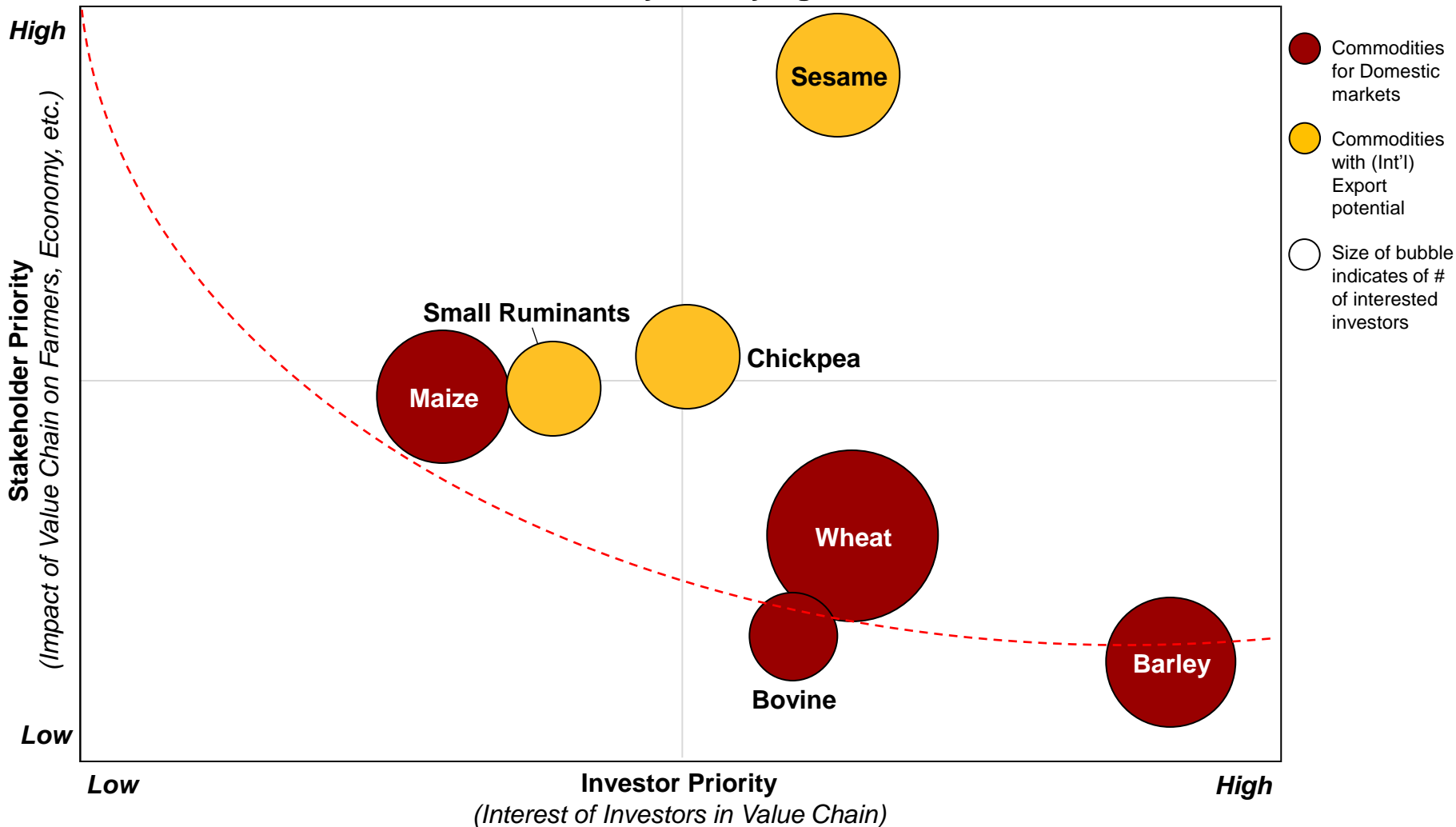
	Description	Metrics for Measurement ¹
Demonstrated Investor Preferences	<ul style="list-style-type: none"> • Demonstrated preferences by investors through recent major investments 	<ul style="list-style-type: none"> • <i>Average Size of Investment (\$M)</i> • <i>No. Of Major Investments in Last 2 Years</i>
Potential Investor Impact	<ul style="list-style-type: none"> • Evaluation of impact on value through potential for additive investments and the number of farmers they may reach 	<ul style="list-style-type: none"> • <i>Investor Types (Local, Global)</i> • <i>Potential for Additive Investment</i> • <i>Impact on Farmers/Holders</i>

¹ Based on data from Ethiopian Investment Agency, primary research and secondary research;
 Note: Each value chain will be given relative ranking based on the metric score i.e. higher average size of investment means a higher rank in terms of investor preferences;
 Source: Monitor Analysis

Investor Priority on Key Agricultural Value Chains



Stakeholder & Investor Priority on Key Agricultural Value Chains



Note: Investor Priority and Stakeholder Priority are rated as the sum of the ratings on the axes of the relevant matrices

Source: Team Discussions, Monitor Analysis

Based upon filter 2 analysis, the following agricultural value chains were selected for further analysis to determine deep dive opportunities



Sesame

- Significant social impact (e.g. high average earnings/farmer at ~\$700 per MT) and healthy economic impact (e.g. relative export competitiveness), supplying 42% of imports within the top 3 export markets (China, Israel, Jordan)
- Reasonably high demonstrated investor preference (including 11 global investors), as well as potential for investor impact



Chickpea

- Significant economic impact (e.g. global market growth at ~7% CAGR over 2006-10, domestic market growth at 22.5% CAGR over 2006-10, relative yield competitiveness)
- Investor conversations suggest potential for significant upside from chickpea investments
 - PepsiCo is collaborating with Omega Foods and WFP for the EthioPEA program, Hilina Enriched Foods is producing nutritional foods with chickpea






Barley

- Barley has robust demonstrated investor preference (e.g., average investment size is over \$30M driven by recent acquisitions of breweries by Heineken and Diageo)
- Barley also has significant potential investor impact
 - Investors intend to invest in expanding existing brewery operations on the back of projected market growth of 20% per annum for the foreseeable future, which will have a significant impact on the demand for barley




Filter 3 – List of Opportunities within Prioritized Value Chains



Through conversations with stakeholders, a list of business opportunities were identified and evaluated across the prioritized value chains

Value Chain	Business Opportunity	Description
Sesame 	Hulling / Cleaning Facility	<ul style="list-style-type: none"> Invest in a plant to dehull sesame seeds so they can be used to prepare other edible products
	Sesame Oil Production Facility	<ul style="list-style-type: none"> Invest in a plant to produce sesame oil for export and domestic consumption
	Tahini Production Facility	<ul style="list-style-type: none"> Produce tahini for export to Middle Eastern markets
Chickpea 	Hummus Production Plant	<ul style="list-style-type: none"> Develop a hummus production plant to cater to domestic and export markets
	Chickpea Snack Food Processing Plant	<ul style="list-style-type: none"> Invest in a processing plant for snack foods made from chickpea catering to the domestic market
	Fortified Food Processing Plant	<ul style="list-style-type: none"> Invest in a fortified food plant which can produce chickpea flour
Barley 	Malting Plant	<ul style="list-style-type: none"> Invest in creating a malting plant that can provide malted barley to domestic breweries, which currently have to import upwards of 50% of their malted barley needs
	Fortified Barley Snack Processing Plant	<ul style="list-style-type: none"> Setup a plant to process roasted barley to create fortified packaged snacks and energy drinks for sale domestically

Based on relative attractiveness and feasibility, three opportunities were selected for deep dive analysis

Value Chain	Business Opportunity	Attractiveness for Investment	Feasibility of Investment
Sesame 	Hulling / Cleaning Facility	<ul style="list-style-type: none"> Increases export value and serves as catalyst for future downstream processing 	<ul style="list-style-type: none"> Average investment of \$1.5-2.5M and potential for fast payback period Demonstrated investor interest
	Sesame Oil Production Facility	<ul style="list-style-type: none"> End-product manufacturing risks diluting value of high quality Ethiopian sesame seeds 	<ul style="list-style-type: none"> Limited investor interest and practical experience processing edible oils in Ethiopia
	Tahini Production Facility	<ul style="list-style-type: none"> Limited investor interest and ambiguous price competitiveness 	<ul style="list-style-type: none"> Limited practical experience processing tahini in Ethiopia
Chickpea 	Hummus Production Plant	<ul style="list-style-type: none"> Less attractive as local tastes are not attuned to hummus – low off-take expected 	<ul style="list-style-type: none"> Not feasible as high quality chickpeas required, and advanced processing tends to be done at destination
	Chickpea Snack Food Processing Plant	<ul style="list-style-type: none"> Requires significant marketing and promotional activities for off-take 	<ul style="list-style-type: none"> Few players interested in investment; limited financial attractiveness
	Chickpea Flour Processing Plant	<ul style="list-style-type: none"> High domestic usage due to use in traditional foods and baby foods Few organized players in market 	<ul style="list-style-type: none"> Some investment candidates exist now Less processing expertise required relative to other investment opportunities
Barley 	Malting Plant	<ul style="list-style-type: none"> High because of rapid growth in beer industry and shortage of local supply of malt 	<ul style="list-style-type: none"> Greenfield opportunity is highly feasible given availability of land for investors, no need to create brand
	Fortified Barley Snack Processing Plant	<ul style="list-style-type: none"> Limited market scope as barley snacks are traditionally home-made and not bought in retail 	<ul style="list-style-type: none"> Barley roasters are small and fragmented, would require establishing a new brand

Source: Stakeholder/investor interviews, Monitor analysis